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FOUNDATIONS OF Marketing

Fifth Edition

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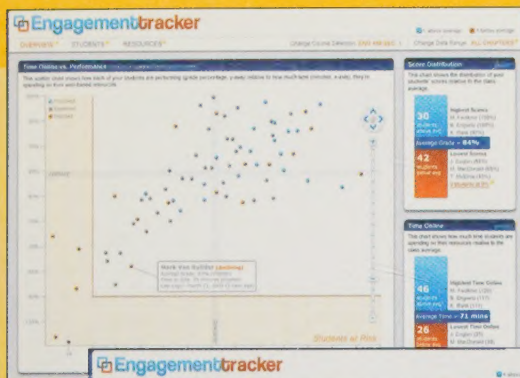
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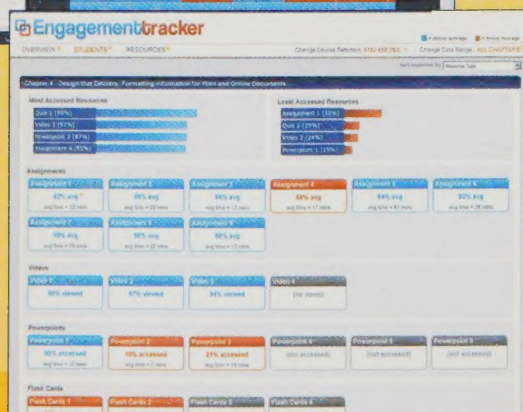
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FOUNDATIONS OF Marketing

Fifth Edition

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To Nancy, Allen, Mike, Ashley, and Charlie Pride

To James Collins Ferrell and George Collins Ferrell



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PREFACE

Marketing in a Challenging Environment

Adapting marketing strategies to a changing environment is a major challenge facing managers today. *Foundations of Marketing* is the leading introduction to marketing textbook that has emphasized how foundational concepts and best practices can be used to enhance marketing decisions. The fifth edition has undergone extensive revisions to help students understand and apply marketing concepts that can lead to career success. All business students need to understand foundational concepts that reflect the real world of marketing. This text provides comprehensive coverage of the most important marketing topics. Because students often learn through examples, this major revision has updated examples, boxes, mini-features, and video cases to reflect the latest developments in the field of marketing.

Marketing managers are facing turbulent times due to economic uncertainty. Global financial markets have been unstable, and an economic recession that started in 2008 continues to very slowly recover. This puts a strain on marketers to correctly assess opportunities and threats and adapt their strategies. U.S. global corporations like Procter & Gamble are reflecting on the economic uncertainty based on increases in commodity prices and consumer spending patterns. Companies face foreign exchange rate issues and weak demand in the United States and Europe. With gross margins on products falling, companies must make marketing decisions to help them deal with the current economic environment. To compound the complexity of decision making, rapid changes in technology are affecting how consumers obtain and use information and purchase products as well as the opportunities for firms to communicate with these new realities of the marketplace.

New to This Edition

Digital media and social networking have become powerful tools for marketers today. These new marketing channels can lower costs, improve communications, provide better customer support, address customer criticisms, and improve marketing research. Many companies have placed such an importance on digital media that they have begun incorporating it into their marketing strategies. Although all elements of the marketing mix should be considered when using digital media, marketers should also be aware of the differences between digital and traditional forms of media. To address these changes in the marketing environment, this edition provides a new chapter: E-Marketing, Digital Media, and Social Networking (Chapter 9). The new chapter addresses important e-marketing tools and the use of digital media to enhance marketers' interaction with and access to consumers. The entire book also integrates digital marketing concepts and examples where appropriate.

or preparing a case, and also approach studying in a variety of ways that might match their learning styles. We have approached the development and design of our supplements to meet both you and your students' needs.

INNOVATIVE AND VALUABLE INSTRUCTOR SUPPLEMENTS

Instructor Resource CD-ROM and Online Instructor Resource Site

Managing your classroom resources is now easier than ever. The new Instructor Resource CD-ROM (IRCD) contains all key instructor supplements—Instructor's Manual, Test Bank, PowerPoint with embedded videos, and ExamView testing software.

Video Package

Available on DVD for in-class viewing, and online for student access outside of the classroom in the CourseMate, WebTutor, and CengageNOW web-based platforms, the video package to accompany *Foundations of Marketing*, 5e, continues to showcase the nuts and bolts of marketing at modern companies. The video segments will help reinforce what your students have learned by showing people who are doing marketing every day—and not according to thematic units.

New to this edition! When viewed online in CourseMate, the video cases have embedded assessment questions and exercises that will challenge your student's comprehension of key concepts.

Instructor Manual

Our Instructor's Manual is the core of our supplements package. For *Foundations of Marketing*, 5e, we have made our popular Instructor's Manual even more valuable for new and experienced instructors alike. Here is a list of the features that will reduce class preparation time:

- A Teaching Resource Guide.
- A pedagogical outline of the key points addressed by the features in each chapter.
- Discussion Starter exercises that include YouTube and other web links.
- Class exercises, group activities, and in-class quizzes.
- Recommended responses and answers to the discussion questions and end-of-chapter cases.

Test Bank and Testing Software

The Test Bank is organized around the learning outcomes to help you prepare on a class-by-class basis, and all questions are tagged with relevant AACSB standards to help you monitor trends in student performance necessary for accreditation. The Test Bank is available in Windows software formats (ExamView testing software) on the IRCD and the Instructor's companion website. With ExamView, you can choose to prepare tests that cover all learning outcomes or that emphasize only those you feel are most important. This updated Test Bank is one of the most comprehensive on the market, with a myriad of true/false, multiple-choice, scenario, and essay questions. Our testing database, combined with the ease of ExamView, takes the pain out of exam preparation. As well, the Test Bank is available on the WebTutor and CengageNOW platforms, which will provide you with the ability to create and administer your own quizzes and also create reports for Assurance of Learning purposes.

CourseMate, WebTutor™, and CengageNOW

Preloaded with content and available via an access code when packaged with this text, CourseMate, WebTutor, and CengageNOW pairs a range of supplemental content with

sophisticated course management functionality. You can assign materials (including online quizzes) and have the results flow automatically to your grade book. Our online teaching and learning solutions are ready to use as soon as you log on—or you can customize its preloaded content by uploading images and other resources, adding web links, or creating your own practice materials.

INNOVATIVE AND VALUABLE STUDENT SUPPLEMENTS

Foundations of Marketing, 5e, provides an excellent vehicle for learning the fundamentals. For students to gain a true understanding of marketing, however, it's best if they can apply the principles they are learning in the classroom. And it's best if they have study aids that address their particular learning style. Our student supplements meet the needs of a variety of learning styles, from visual to auditory, from hands-on to abstract conceptualization.

CourseMate

There are a rich collection of study tools that will help your students in achieving a better mastery of marketing concepts on several platforms. The easiest to use for instructors who want to provide students with a range of study tools without tracking their progress in an intensive manner is the CourseMate supplement to *Foundations of Marketing*, 5e. Here is a summary of the resources that are available in CourseMate, as well as in the other learning platforms.

- The Audio Quizzes, Beat the Clock, Flashcards, Media Quizzing, Interactive quizzes, and the sample Final Exam will help students assess their understanding of chapter concepts and give them confidence in preparing for higher stakes testing.
- A complete e-book is available within CourseMate so students can access it when and where they want to. There is search, note-taking, and highlighting functionality within the e-book.
- The Glossary, Learning Objectives, PowerPoint Notes, Videos, KnowNow, and Interactive Exercises provide students with study tools that will help them study more efficiently and enhance their understanding of marketing.
- The Interactive Marketing Plan provides students with a step-by-step approach to authoring their own marketing plan to better grasp this important marketing activity or prepare a marketing plan for a class project.
- Finally, the Career Transitions section will provide resources where students can search for marketing careers that meet their career goals, and search for suitable internships and full-time positions.

Even though CourseMate requires no setup or administrative requirements for adopting instructors, you can still check on how much students have studied and how well they have performed in practice quizzes. Engagement Tracker monitors student engagement in the course.

CengageNOW

Ensure that your students have the understanding of Marketing procedures and concepts they need with CengageNOW. This integrated, online course management and learning system combines the best of current technology to save time in planning and managing your course and assignments. With CengageNOW, you can reinforce comprehension with customized student learning paths and efficiently test and automatically grade assignments.

WebTutor™

Online learning is growing at a rapid pace. Whether you are looking to offer courses at a distance or in a web-enhanced classroom, South-Western, a part of Cengage Learning, offers you a solution with WebTutor. WebTutor provides instructors with text-specific content

that interacts with the leading systems of higher education course management: WebCT, Blackboard, Angel, and Moodle. WebTutor is a turnkey solution for instructors who want to begin using technology on a Learning Management System but do not have web-ready content available or do not want to be burdened with developing their own content.

By incorporating WebTutor into your course plan, everyone in your class becomes a front-row student. So much more than just an online study guide, WebTutor offers unmatched depth of content and rich communication tools, such as practice quizzes, concept reviews, animated figures, discussion forums, video clips, and more. WebTutor's chat and e-mail software makes it easy to set up virtual office hours, which encourages a collaborative learning environment and facilitates communication between you and your students.

Simulations

Instructors wishing to integrate a simulation into their course can package access to Music2Go, a leading simulation from Smartsims. In Music2Go, students take over an MP3 player division of a large consumer electronics corporation. The division was created to launch an assault on the MP3 player market, and students have the opportunity to formulate their sales, marketing, and distribution strategy. The challenge is to build their firm into the leading player in the market. Students will make all the key functional decisions involving price, sales forecasts, advertising, promotion activities, distribution, and research and development over several periods, just like sales and marketing executives in the real world.

To create the best solution for you and your students, contact your Cengage representative.

Your Comments and Suggestions Are Valued

As authors, our major focus has been on teaching and preparing learning material for introductory marketing students. We have both traveled extensively to work with students and understand the needs of professors of introductory marketing courses. We both teach this marketing course on a regular basis and test the materials included in the book, test bank, and other ancillary materials to make sure they are effective in the classroom.

Through the years, professors and students have sent us many helpful suggestions for improving the text and ancillary components. We invite your comments, questions, and criticisms. We want to do our best to provide materials that enhance the teaching and learning of marketing concepts and strategies. Your suggestions will be sincerely appreciated. Please e-mail us at w-pride@tamu.edu or OCFerrell@mgt.unm.edu, or call 979-845-5857 (Bill Pride) or 505-277-3468 (O. C. Ferrell).

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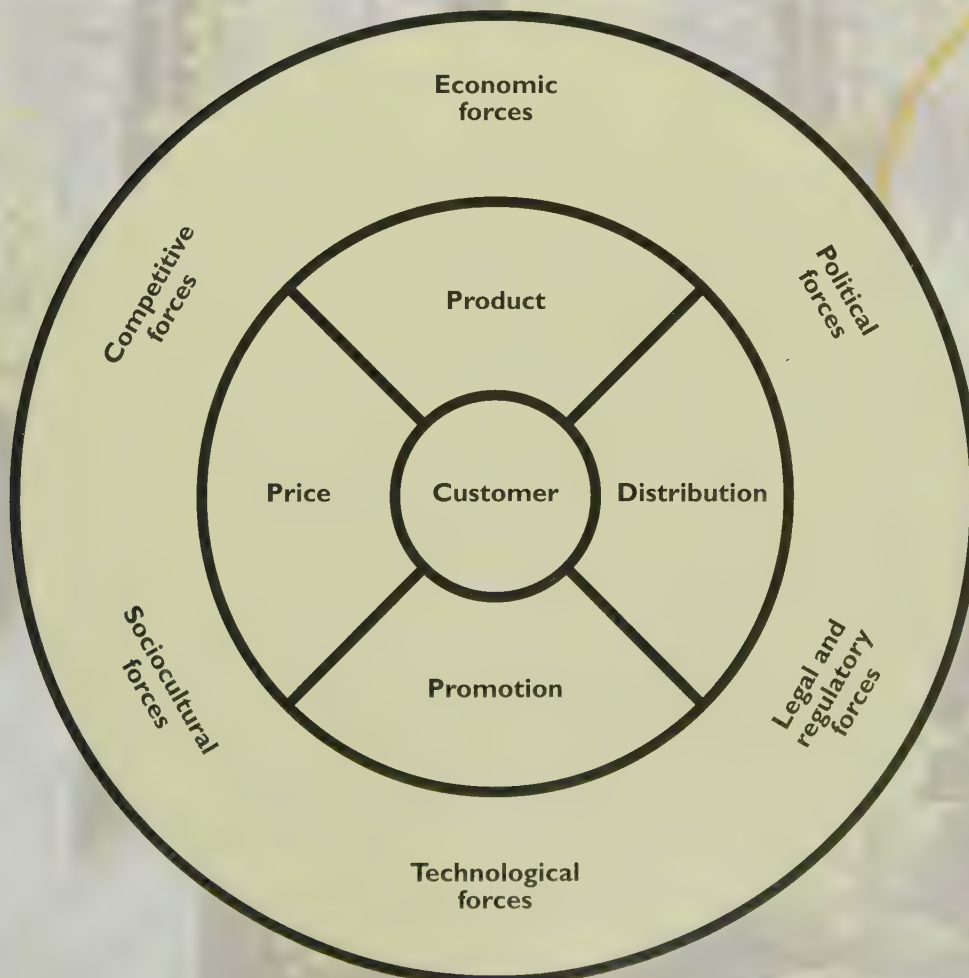
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PART 1

STRATEGIC MARKETING AND ITS ENVIRONMENT

Part 1 introduces the field of marketing and offers a broad perspective from which to explore and analyze various components of the marketing discipline. Chapter 1 defines *marketing* and explores some key concepts, including customers and target markets, the marketing mix, relationship marketing, the marketing concept, and value. Chapter 2 provides an overview of strategic marketing issues, such as the effect of organizational resources and opportunities on the planning process; the role of the mission statement; corporate, business-unit, and marketing strategies; and the creation of the marketing plan. These issues are profoundly affected by competitive, economic, political, legal and regulatory, technological, and sociocultural forces in the marketing environment. Chapter 3 deals with these environmental forces and with the role of social responsibility and ethics in marketing decisions.



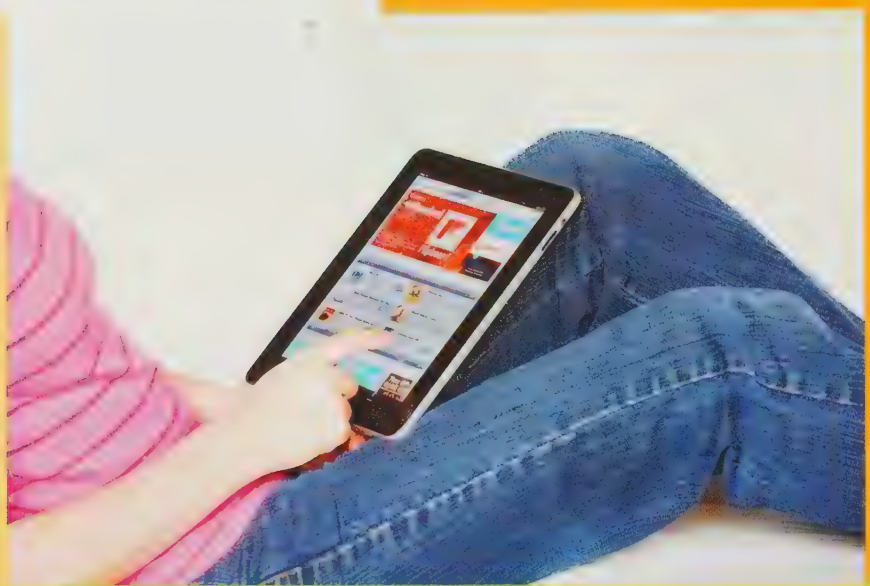
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CHAPTER 1

Customer-Driven Strategic Marketing



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MARKETING INSIGHTS

OBJECTIVES:

- 1 Define *marketing*.
- 2 Understand several important marketing terms, including *target market*, *marketing mix*, *marketing exchanges*, and *marketing environment*.
- 3 Be aware of the marketing concept and market orientation.
- 4 Understand the importance of building customer relationships.
- 5 Explain the major marketing functions that are part of the marketing management process.
- 6 Understand the role of marketing in our society.

How Mobile Apps Are Changing Marketing

Mobile applications (apps) are becoming a necessity in the marketing field. Nearly 60 percent of mobile users indicate that they use their phones to shop for best prices over the holidays. This is boosting the app market into what will become an estimated \$40 billion industry by 2014.

These apps are changing the way marketers operate. For instance, it has long been a practice of retailers to match competitors' prices. Before, consumers were required to have this information handy prior to entering the store. Now mobile apps like PriceGrabber enable consumers to get access to competitors' prices while they are still inside. The rapidly evolving nature of the marketing environment creates the need for marketers to react quickly with new incentives that customers value. As a result, discounts, gift cards, and coupons are becoming increasingly available through mobile apps.

In addition to incentives, many marketers are using apps to capitalize on new promotional opportunities. HeadBlade, for instance, makes razors specialized for head shaving. It created the ShaveMyHead app to promote the company. The app allows users to import photos of themselves, crop their hair, and then choose from over a dozen "bald domes" to see what they might look like with shaved heads. ShaveMyHead is increasing brand awareness for HeadBlade, along with creating a more positive (albeit amusing) reputation for the company.

This wide-scale popularity of mobile apps means that marketers can no longer afford to lag behind in their adoption of mobile technology. They must be proactive to meet consumers' growing demands for incentives and promotion on the go.¹

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Mobile applications represent one of many mediums through which companies can communicate useful information. All organizations must determine how to develop a product that customers want, communicate useful information about it through the use of different media outlets, price it appropriately, and make the product available where and when consumers want to buy it. Even if it does all these things well, uncontrollable factors like competition or an economic recession can affect the company's success.

This chapter introduces the strategic marketing concepts and decisions covered throughout the text. First, we develop a definition of *marketing* and explore each element of the definition in detail. Next, we introduce the marketing concept and consider several issues associated with its implementation. We also take a look at the management of customer relationships and then at the concept of value, which customers are demanding today more than ever before. We then explore the process of marketing management, which includes planning, organizing, implementing, and controlling marketing activities to encourage marketing exchanges. Finally, we examine the importance of marketing in the global economy.

Marketing Defined

If you ask several people what *marketing* is, you are likely to hear a variety of descriptions. Although many people think marketing is advertising or selling, marketing is much more complex than most people realize. In this book, we define **marketing** as the process of creating, distributing, promoting, and pricing goods, services, and ideas to facilitate satisfying exchange relationships with customers and to develop and maintain favorable relationships with stakeholders in a dynamic environment. Our definition is consistent with that of the American Marketing Association (AMA), which defines *marketing* as “the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.”² Our definition of *marketing* guides the organization of this first chapter.

CUSTOMERS ARE THE FOCUS

As the purchasers of the products that organizations develop, price, distribute, and promote, **customers** are the focal point of all marketing activities (see Figure 1.1). Organizations have to define their products not as what the companies make or produce but as what they do to satisfy customers. The Walt Disney Company is not in the business of establishing theme parks; it is in the business of making people happy. At Disney World, customers are guests, the crowd is an audience, and employees are cast members. Customer satisfaction and enjoyment can come from anything received when buying and using a product. For instance, Procter & Gamble's Febreze removes odors from clothing and fabric, whereas its Swiffer dusters help clean the house quickly and neatly.

The essence of marketing is to develop satisfying exchanges from which both customers and marketers benefit. The customer expects to gain a reward or benefit greater than the costs incurred in a marketing transaction. The marketer expects to gain something of value in return, generally the price charged for the product. Through buyer–seller interaction, a customer develops expectations about the seller's future behavior. To fulfill these expectations, the marketer must deliver on promises made. Over time, this interaction results in relationships between the two parties. Fast-food restaurants such as Taco Bell and Subway depend on repeat purchases from satisfied customers—many often live or work a few miles from these restaurants—whereas customer expectations revolve around tasty food, value, and dependable service.

marketing

The process of creating, distributing, promoting, and pricing goods, services, and ideas to facilitate satisfying exchange relationships with customers and to develop and maintain favorable relationships with stakeholders in a dynamic environment

customers

The purchasers of organizations' products, the focal point of all marketing activities

FIGURE 1.1 Components of Strategic Marketing

Organizations generally focus their marketing efforts on a specific group of customers, called a **target market**. Marketing managers may define a target market as a vast number of people or a relatively small group. For instance, marketers are increasingly interested in consumers who grew up in the digital era. In Europe, 75 percent of those under the age of 18 are online. In the Netherlands, 93 percent of all individuals between 6 and 18 years old are online. In understanding this target market, there has been a tremendous amount of marketing research on their behavior and beliefs. In the United Kingdom, young people tend to trust the Web more than their parents, with 90 percent using the Web to search for personal advice. The “digital generation” represents a unique and specific target market in terms of education, access to technology, and individual and/or family income.³ Other companies target multiple markets with different products, promotions, prices, and distribution systems for each one. Vans shoes target a fairly narrow market segment, especially compared to more diverse athletic shoe companies such as Nike and Reebok. Vans targets skateboarders and snowboarders between the ages of 10 and 24, whereas Nike and Reebok target most sports, age ranges, genders, and price points.⁴

target market

A specific group of customers on whom an organization focuses its marketing efforts

marketing mix

Four marketing activities—product, pricing, distribution, and promotion—that a firm can control to meet the needs of customers within its target market

MARKETING DEALS WITH PRODUCTS, PRICE, DISTRIBUTION, AND PROMOTION

Marketing is more than simply advertising or selling a product; it involves developing and managing a product that will satisfy customer needs. It focuses on making the product available in the right place and at a price acceptable to buyers. It also requires communicating information that helps customers determine if the product will satisfy their needs. These activities are planned, organized, implemented, and controlled to meet the needs of customers within the target market. Marketers refer to these activities—product, pricing, distribution, and promotion—as the **marketing mix** because they decide what type of each element to use and in what amounts. A primary goal of a marketing manager is to create and



Appealing to a Target Market

JCPenney targets the women's fashion market.

REUTERS/Natalie Behring/Landov

maintain the right mix of these elements to satisfy customers' needs for a general product type. Note in Figure 1.1 that the marketing mix is built around the customer.

Marketing managers strive to develop a marketing mix that matches the needs of customers in the target market. For example, Netflix has excelled in providing entertainment at affordable prices and through distribution channels that consumers want. Netflix currently has the highest brand loyalty score according to *Brandweek's* Brandindex report. On the other hand, Blockbuster, a former market leader in this industry, is currently in Chapter 11 bankruptcy. Marketing managers must constantly monitor the competition and adapt their product, pricing, promotion, and distribution decisions to create long-term success.⁵

Before marketers can develop a marketing mix, they must collect in-depth, up-to-date information about customer needs. Such information might include data about the age, income, ethnicity, gender, and educational level of people in the target market; their preferences for product features; their attitudes toward competitors' products; and the frequency with which they use the product. La-Z-Boy furniture has strong brand recognition for one of its pieces of furniture, its recliners, but not for its entire full range of traditional furniture options. To overcome this narrow perception, the company changed its tagline to "Live life comfortably" and brought in Brooke Shields as the company's spokesperson. The ads will target working women balancing careers and families. Research revealed that Brooke Shields tests strongly among this particular market segment.⁶ Armed with market information, marketing managers are better able to develop a marketing mix that satisfies a specific target market.

Let's look more closely at the decisions and activities related to each marketing mix variable.

Product Variable

Successful marketing efforts result in products that become part of everyday life. Consider the satisfaction customers have had over the years from Coca-Cola, Levi's jeans, Visa credit

Product

Welch's product is an example of a tangible good. HSBC provides a product that is a financial service.



Courtesy of The Advertising Archives

cards, Tylenol pain relievers, and 3M Post-it Notes. The product variable of the marketing mix deals with researching customers' needs and wants and designing a product that satisfies them. A **product** can be a good, a service, or an idea. A *good* is a physical entity you can touch. Oakley sunglasses, Seven for All Mankind jeans, and Axe body spray are all examples of products or goods. A *service* is the application of human and mechanical efforts to people or objects to provide intangible benefits to customers. Air travel, dry cleaning, haircutting, banking, medical care, and day care are examples of services. *Ideas* include concepts, philosophies, images, and issues. For instance, a marriage counselor, for a fee, gives spouses ideas to help improve their relationship. Other marketers of ideas include political parties, churches, and schools.

The product variable also involves creating or modifying brand names and packaging and may include decisions regarding warranty and repair services. For example, the lawn care company TruGreen was originally branded as "Chemlawn." The company adapted its branding and products to provide a healthier and "greener" product offering.

Product variable decisions and related activities are important because they are directly involved with creating products that address customers' needs and wants. To maintain an assortment of products that helps an organization achieve its goals, marketers must develop new products, modify existing ones, and eliminate those that no longer satisfy enough buyers or that yield unacceptable profits. We consider such product issues and many more in Chapters 10 and 11.

Price Variable

The price variable relates to decisions and actions associated with establishing pricing objectives and policies and determining product prices. Price is a critical component of the marketing mix because customers are concerned about the value obtained in an exchange. Price is often used as a competitive tool, and intense price competition sometimes leads to price wars. High prices can be used competitively to establish a product's premium image. Waterman and Mont Blanc pens, for example, have an image of high quality and high price that has given them significant status. On the other hand, some luxury goods marketers are

product

A good, a service, or an idea

now offering lower-priced versions of their products to appeal to middle-class consumers who want to “trade up” to prestigious brand names. Leather goods company Coach has shifted its price point on its Poppy line to younger, more price-conscious consumers. In the previous year, 30 percent of the Coach handbag line was under \$300, whereas this segment now represents 50 percent of Coach handbags.⁷ Other companies are skilled at providing products at prices lower than competitors. Apple is a cost leader with its iPad, priced at \$500. No other company has been able to create a comparable product with prices that low, providing Apple with a considerable competitive advantage.⁸ We explore pricing decisions in Chapters 12 and 13.

Distribution Variable

To satisfy customers, products must be available at the right time and in convenient locations. Subway, for example, locates not only in strip malls, but also inside Walmarts, Home Depots, laundromats, churches, and hospitals, as well as inside Goodwill stores, car dealerships, and appliance stores. There are more than 33,500 Subways in 95 different countries, all of them franchises. Six thousand of these are placed in nontraditional locations, such as churches.⁹ In dealing with the distribution variable, a marketing manager makes products available in the quantities desired to as many target-market customers as possible, keeping total inventory, transportation, and storage costs as low as possible. A marketing manager also may select and motivate intermediaries (wholesalers and retailers), establish and maintain inventory control procedures, and develop and manage transportation and storage systems. The advent of the Internet and electronic commerce also has dramatically influenced the distribution variable. Companies now can make their products available throughout the world without maintaining facilities in each country. Apple has benefited from the ability to download songs and apps over the Internet. With sales of songs topping \$10 billion through its iTunes stores, the company has supported growth and global success beyond the presence of physical Apple stores selling phones, computers, iPads, and accessories. We examine distribution issues in Chapters 14 and 15.



Distribution

Starbucks licensed PepsiCo to distribute its Frappuccino in retail stores.

Promotion Variable

The **promotion variable** relates to activities used to inform individuals or groups about the organization and its products. Promotion can aim to increase public awareness of the organization and of new or existing products. The band Weezer, for example, promoted its album by featuring it on their website, by offering a discount to fans who purchased the CD on Amazon.com, and by creating a Weezer Snuggie that could only be purchased as a bundle with the CD. The band made a parody video of the famous Snuggie infomercial, featuring band members wearing the Weezer Snuggie, and uploaded the video to their website as well as to YouTube.¹⁰

Promotional activities also can educate customers about product features or urge people to take a particular stance on a political or social issue, such as smoking or drug abuse. For example, the Library of Congress determined that using Curious George in its ads to promote childhood literacy would encourage parents to read to their children. Studies show that parents' reading to their children increases the children's desire to read. The tagline for many of the promotional materials was "What makes a curious reader? You do!"¹¹ Promotion can help to sustain interest in established products that have been available for decades, such as Arm & Hammer baking soda or Ivory soap. Many companies are using the Internet to communicate information about themselves and their products. Campbell's Kitchen provides a diverse array of recipes, coupons, and discussion boards online to support the sales of its soups.¹² In Chapters 16 through 18 we take a detailed look at promotion activities.

The marketing mix variables are often viewed as controllable because they can be modified. However, there are limits to how much marketing managers can alter them. Economic conditions, competitive structure, and government regulations may prevent a manager from adjusting prices frequently or significantly. Making changes in the size, shape, and design of most tangible goods are expensive; therefore, such product features cannot be altered very often. In addition, promotional campaigns and methods used to distribute products ordinarily cannot be rewritten or revamped overnight.

MARKETING BUILDS RELATIONSHIPS WITH CUSTOMERS AND OTHER STAKEHOLDERS

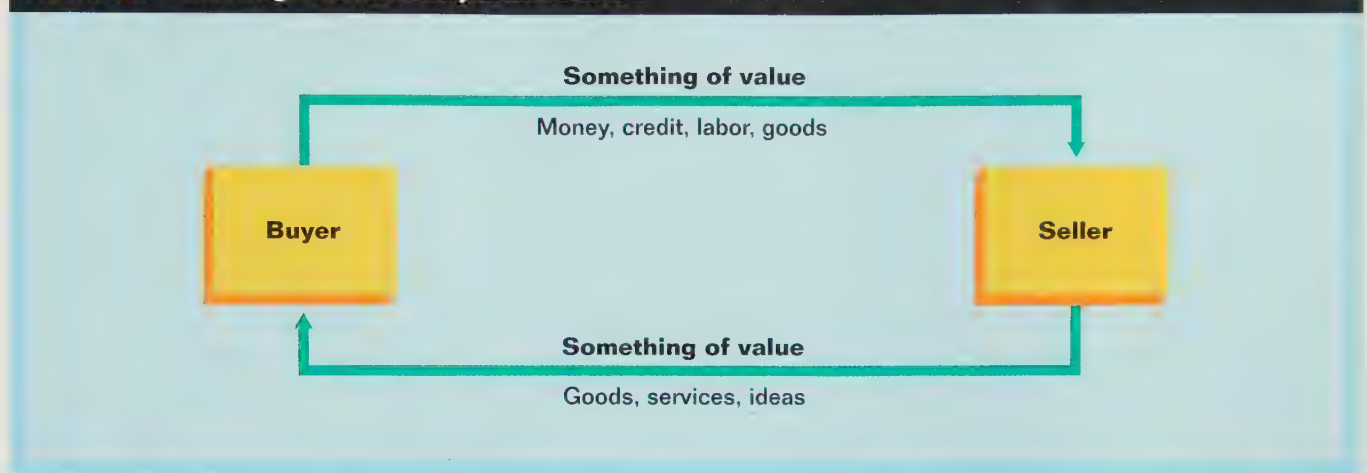
Individuals and organizations engage in marketing to facilitate **exchanges**, the provision or transfer of goods, services, or ideas in return for something of value. Any product (good, service, or even idea) may be involved in a marketing exchange. We assume only that individuals and organizations expect to gain a reward in excess of the costs incurred.

For an exchange to take place, four conditions must exist. First, two or more individuals, groups, or organizations must participate, and each must possess something of value that the other party desires. Second, the exchange should provide a benefit or satisfaction to both parties involved in the transaction. Third, each party must have confidence in the promise of the "something of value" held by the other. If you go to a Coldplay concert, for example, you go with the expectation of a great performance. Finally, to build trust, the parties to the exchange must meet expectations.

Figure 1.2 depicts the exchange process. The arrows indicate that the parties communicate that each has something of value available to exchange. An exchange will not necessarily take place just because these conditions exist; marketing activities can occur even without an actual transaction or sale. You may see an ad for a Sub-Zero refrigerator, for instance, but you might never buy the luxury appliance. When an exchange occurs, products are traded for other products or for financial resources.

exchanges

The provision or transfer of goods, services, or ideas in return for something of value

FIGURE 1.2 Exchange between Buyer and Seller

Marketing activities should attempt to create and maintain satisfying exchange relationships. To maintain an exchange relationship, buyers must be satisfied with the good, service, or idea obtained, and sellers must be satisfied with the financial reward or something else of value received. A dissatisfied customer who lacks trust in the relationship often searches for alternative organizations or products.

Marketers are concerned with building and maintaining relationships not only with customers but also with relevant stakeholders. **Stakeholders** include those constituents who have a “stake,” or claim, in some aspect of a company’s products, operations, markets, industry, and outcomes; these include customers, employees, investors and shareholders, suppliers, governments, communities, and many others. Developing and maintaining favorable relations with stakeholders is crucial to the long-term growth of an organization and its products.

MARKETING OCCURS IN A DYNAMIC ENVIRONMENT

Marketing activities do not take place in a vacuum. The **marketing environment**, which includes competitive, economic, political, legal and regulatory, technological, and sociocultural forces, surrounds the customer and affects the marketing mix (see Figure 1.1). The effects of these forces on buyers and sellers can be dramatic and difficult to predict. They can create threats to marketers but also can generate opportunities for new products and new methods of reaching customers.

The forces of the marketing environment affect a marketer’s ability to facilitate exchanges in three general ways. First, they influence customers by affecting their lifestyles, standards of living, and preferences and needs for products. Because a marketing manager tries to develop and adjust the marketing mix to satisfy customers, effects of environmental forces on customers also have an indirect impact on marketing-mix components. In response to health concerns from consumers, emerging restaurants like Season’s 52 offer a seasonally inspired menu with nothing on the menu containing more than 475 calories. The restaurant pays attention to portion size, freshness of ingredients, and flavor of preparation using wood fire grills and brick ovens to enhance flavors.¹³ Second, marketing environment forces help to determine whether and how a marketing manager can perform certain marketing activities. Third, environmental forces may affect a marketing manager’s decisions and actions by influencing buyers’ reactions to the firm’s marketing mix.

stakeholders

Constituents who have a “stake,” or claim, in some aspect of a company’s products, operations, markets, industry, and outcomes

marketing environment

The competitive, economic, political, legal and regulatory, technological, and sociocultural forces that surround the customer and affect the marketing mix

Marketing environment forces can fluctuate quickly and dramatically, which is one reason marketing is so interesting and challenging. Because these forces are closely interrelated, changes in one may cause changes in others. For example, evidence linking children's consumption of soft drinks and fast foods to health issues such as obesity and diabetes has exposed marketers of such products to negative publicity and generated calls for legislation regulating the sale of soft drinks in public schools. Some companies have responded to these concerns by voluntarily reformulating products to make them healthier or even introducing new products. General Mills is decreasing the amount of sugar in its cereals so as not to exceed 10 grams of sugar per serving (nearly a 10 percent decrease from the previous year) for cereals targeting children under 12 years of age. Of children aged 5 and under, more than 20 million are overweight. Societal concern over obesity is a major health issue facing both children and adults.¹⁴ Although changes in the marketing environment produce uncertainty for marketers and at times hurt marketing efforts, they also create opportunities. For example, when oil prices increase, consumers shift to potential alternative sources of transportation, including bikes, buses, light rail, trains, carpooling, more energy-efficient vehicle purchases, or telecommuting when possible. Marketers who are alert to changes in environmental forces not only can adjust to and influence these changes but can also capitalize on the opportunities such changes provide.

Marketing-mix variables—product, price, distribution, and promotion—are factors over which an organization has control; the forces of the environment, however, are subject to far less control. Even though marketers know that they cannot predict changes in the marketing environment with certainty, they must, nevertheless, plan for them. Because these environmental forces have such a profound effect on marketing activities, we explore each of them in considerable depth in Chapter 3.

UNDERSTANDING THE MARKETING CONCEPT

Some firms have sought success by buying land, building a factory, equipping it with people and machines, and then making a product they believe buyers need. However, these firms frequently fail to attract customers with what they have to offer because they defined their

Emerging Trends in Marketing



McDonald's Plans to Win with Restaurant Reinvention

Art deco panels, hardwood floors, ceiling lamps—and golden arches? McDonald's is going chic with its new Plan to Win strategy. Launched in 2003 among a saturated market and falling stock prices, Plan to Win emphasizes menu innovation, store redesign, and order upgrades. McDonald's wants to create an experiential atmosphere that attracts even the most "sophisticated" crowds. Consequently, contemporary McDonald's restaurants are popping up across the world, with positive results. Within one month, sales of redesigned stores in the United States grew 6 to 7 percent.

Despite these encouraging results, the challenge for McDonald's is to convince franchises of the benefits of renovation. Although McDonald's is offering to cover about 40 percent of redesign costs, the \$400,000–\$700,000 renovations remain expensive for franchise owners. McDonald's must also take care that its reinvention does not compromise its brand integrity. The new designs will need to strike a balance between creating a contemporary feel and maintaining the brand elements that give McDonald's its timeless appeal.^a



The Marketing Concept

A part of the marketing concept involves being focused on satisfying customers.

business as “making a product” rather than as “helping potential customers satisfy their needs and wants.” For example, when CDs became more popular than vinyl records, turntable manufacturers had an opportunity to develop new products to satisfy customers’ needs for home entertainment. Companies that did not pursue this opportunity, such as Dual and Empire, are no longer in business. Such organizations have failed to implement the marketing concept. Likewise, the growing popularity of MP3 technology has enabled firms such as Apple Inc. to develop products like the iPod, iPhone, and iPad to satisfy consumers’ desire to store customized music libraries. Tablet computers like the iPad and the Samsung Galaxy Tab are beginning to overtake PCs in sales.

According to the **marketing concept**, an organization should try to provide products that satisfy customers’ needs through a coordinated set of activities that also allows the organization to achieve its goals. Customer satisfaction is the major focus of the marketing concept. To implement the marketing concept, an organization strives to determine what buyers want and uses this information to develop satisfying products. It focuses on customer analysis, competitor analysis, and integration of the firm’s resources to provide customer value and satisfaction, as well as to generate long-term profits.¹⁵ The firm also must continue to alter, adapt, and develop products to keep pace with customers’ changing desires and preferences. Howard Schultz, founder and CEO of Starbucks, demonstrates the company’s grasp on the marketing concept by explaining that Starbucks is not a coffee business that serves people, but rather a “people business serving coffee.” Starbucks’ leadership sees the company as being “in the business of humanity,” emphasizing the fact that Starbucks is not only concerned about customers but society as well.¹⁶

Thus, the marketing concept emphasizes that marketing begins and ends with customers. Research has found a positive association between customer satisfaction and shareholder value.¹⁷ In addition, high levels of customer satisfaction also tend to attract and retain high-quality employees and managers.¹⁸

marketing concept

A managerial philosophy that an organization should try to satisfy customers’ needs through a coordinated set of activities that also allows the organization to achieve its goals

The marketing concept is *not* a second definition of marketing. It is a management philosophy guiding an organization's overall activities. This philosophy affects all organizational activities, not just marketing. Production, finance, accounting, human resources, and marketing departments must work together.

The marketing concept is also not a philanthropic philosophy aimed at helping customers at the expense of the organization. A firm that adopts the marketing concept must satisfy not only its customers' objectives but also its own, or it will not stay in business long. The overall objectives of a business might relate to increasing profits, market share, sales, or a combination of all three. The marketing concept stresses that an organization can best achieve these objectives by being customer oriented. Thus, implementing the marketing concept should benefit the organization as well as its customers.

It is important for marketers to consider not only their current buyers' needs but also the long-term needs of society. Striving to satisfy customers' desires by sacrificing society's long-term welfare is unacceptable. For instance, there is significant demand for large SUVs and trucks. However, environmentalists and federal regulators are challenging automakers to produce more fuel-efficient vehicles with increased mpg (miles per gallon) standards. The question that remains is whether or not Americans are willing to give up their spacious SUVs for the good of the environment.¹⁹

EVOLUTION OF THE MARKETING CONCEPT

The marketing concept may seem like an obvious approach to running a business. However, businesspeople have not always believed that the best way to make sales and profits is to satisfy customers (see Figure 1.3).

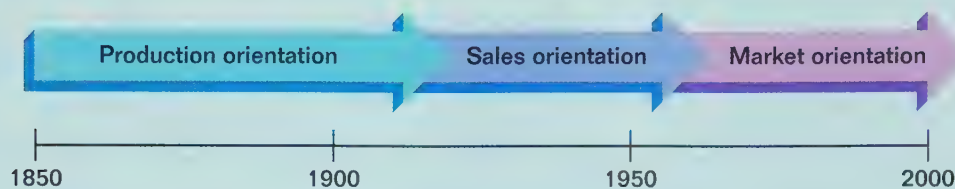
The Production Orientation

During the second half of the 19th century, the Industrial Revolution was in full swing in the United States. Electricity, rail transportation, division of labor, assembly lines, and mass

The Marketing Concept—Satisfying Stakeholder Needs

Hybrid automobiles satisfy the needs of consumers concerned about sustainability.



FIGURE 1.3 The Evolution of the Marketing Concept

production made it possible to produce goods more efficiently. With new technology and new ways of using labor, products poured into the marketplace, where demand for manufactured goods was strong.

The Sales Orientation

In the 1920s, strong demand for products subsided, and businesses realized that they would have to “sell” products to buyers. From the mid-1920s to the early 1950s, businesses viewed sales as the major means of increasing profits, and this period came to have a sales orientation. Businesspeople believed that the most important marketing activities were personal selling, advertising, and distribution. Today, some people incorrectly equate marketing with a sales orientation.

The Market Orientation

By the early 1950s, some businesspeople began to recognize that efficient production and extensive promotion did not guarantee that customers would buy products. These businesses, and many others since, found that they must first determine what customers want and then produce those products rather than making the products first and then trying to persuade customers that they need them. As more organizations realized the importance of satisfying customers’ needs, U.S. businesses entered the marketing era, one of market orientation.

A **market orientation** requires the “organizationwide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organizationwide responsiveness to it.”²⁰ Market orientation is linked to new-product innovation by developing a strategic focus to explore and develop new products to serve target markets.²¹ With an increasing “green attitude” in this country, consumers like environmentally responsible products offered at fair prices. To meet this demand, Method laundry detergent is eight times more concentrated and can clean 50 loads of laundry from a container the size of a small soda drink bottle. Top management, marketing managers, nonmarketing managers (those in production, finance, human resources, and so on), and customers are all important in developing and carrying out a market orientation. Trust, openness, honoring promises, respect, collaboration, and recognizing the market as the *raison d’être* are six values required by organizations striving to become more market oriented.²² Unless marketing managers provide continuous customer-focused leadership with minimal interdepartmental conflict, achieving a market orientation will be difficult. Nonmarketing managers must communicate with marketing managers to share information important to understanding the customer. Finally, a market orientation involves being responsive to ever-changing customer needs and wants. To accomplish this, Amazon.com—the online provider of books, CDs, DVDs, toys, and many other products—follows buyers’ online purchases and recommends related topics. Trying to assess what customers want, which is difficult to

market orientation

An organizationwide commitment to researching and responding to customer needs

Marketing Debate



Tweeting for Customer Service

ISSUE: *Should companies try to incorporate Twitter into their customer service strategies?*

Twitter might not seem like much of a threat. However, Maytag's customer service found out otherwise after one dissatisfied blogger shared her poor Maytag experience with her 1 million Twitter followers. With the millions of product and service reviews shared on Twitter, the site has the potential to strongly impact a company's image. Some companies are using Twitter positively by actively searching out disgruntled consumers and addressing their concerns. Best Buy even established a "Twelpforce" to respond to Twitter distress calls. The downside is that Twitter users might not have legitimate complaints and could instead be trying to harm the company.^b

begin with, is further complicated by the speed with which fashions and tastes can change. Today, businesses want to satisfy customers and build meaningful long-term buyer-seller relationships. Doing so helps a firm boost its own financial value.²³

IMPLEMENTING THE MARKETING CONCEPT

A philosophy may sound reasonable and look good on paper, but this does not mean that it can be put into practice easily. To implement the marketing concept, a market-oriented organization must accept some general conditions and recognize and deal with several problems. Consequently, the marketing concept has yet to be fully accepted by all businesses.

Management must first establish an information system to discover customers' real needs and then use the information to create satisfying products. For example, Rubbermaid is using a social commerce platform (customer/business interaction mechanism) that affects product development and education as to how to use the product. In reviewing customer interaction, Rubbermaid noted that many consumers

did not understand how to use its "Produce Saver" food storage container properly. When the company added use and care instructions to its website, the average star rating (a notation of satisfaction) increased significantly. Listening and responding to consumers' frustration and appreciation is key in implementing the marketing concept.²⁴ An information system is usually expensive; management must commit money and time for its development and maintenance. Without an adequate information system, however, an organization cannot be market oriented.

To satisfy customers' objectives as well as its own, a company also must coordinate all of its activities. This may require restructuring the internal operations and overall objectives of one or more departments. Walmart, for example, began using barcode technology in its distribution centers and stores in 1984, and many other retailers and producers embraced the technology within a few years. In 2003, however, Walmart shifted to radio-frequency identification (RFID) technology, investing significant resources in RFID readers throughout its system and demanding that its larger suppliers adopt the technology as well. After suppliers balked at RFID's cost and poor return on investment, Walmart was forced to drop the supplier initiative. If the head of the marketing unit is not a member of the organization's top-level management, he or she should be. Some departments may have to be abolished and new ones created. Implementing the marketing concept demands the support not only of top management but also of managers and staff at all levels.

Managing Customer Relationships

Achieving the full profit potential of each customer relationship should be the fundamental goal of every marketing strategy. Marketing relationships with customers are the lifeblood of all businesses. At the most basic level, profits can be obtained through relationships in the following ways: (1) by acquiring new customers, (2) by enhancing the profitability

of existing customers, and (3) by extending the duration of customer relationships. In addition to retaining customers, companies also should focus on regaining and managing relationships with customers who have abandoned the firm.²⁵ Implementing the marketing concept means optimizing the exchange relationship, which is the relationship between a company's financial investment in customer relationships and the return generated by customers responding to that investment.²⁶

Maintaining positive relationships with customers is an important goal for marketers. The term **relationship marketing** refers to "long-term, mutually beneficial arrangements in which both the buyer and seller focus on value enhancement through the creation of more satisfying exchanges."²⁷ Relationship marketing continually deepens the buyer's trust in the company, and as the customer's confidence grows, this, in turn, increases the firm's understanding of the customer's needs. Successful marketers respond to customer needs and strive to increase value to buyers over time. Eventually, this interaction becomes a solid relationship that allows for cooperation and mutual dependency.

To build these long-term customer relationships, marketers are increasingly turning to marketing research and information technology. **Customer relationship management (CRM)** focuses on using information about customers to create marketing strategies that develop and sustain desirable customer relationships. By increasing customer value over time, organizations try to retain and increase long-term profitability through customer loyalty.²⁸ For example, Best Buy has a Reward Zone program, wherein members collect a reward point for every \$1 spent in the store, which can be redeemed for gift certificates. Every 250 points earns customers a \$5 reward certificate.²⁹

Managing customer relationships requires identifying patterns of buying behavior and using that information to focus on the most promising and profitable customers.³⁰ Companies must be sensitive to customers' requirements and desires and establish communication to build their trust and loyalty. Pizza Hut, for example, is estimated to have a lifetime customer value of \$8,000, whereas Cadillac estimates their lifetime customer's value at \$332,000.³¹ In general, when marketers focus on customers chosen for their lifetime value, they earn higher profits in future periods than when they focus on customers selected for other reasons.³²

Because the loss of a loyal potential lifetime customer could result in lower profits, managing customer relationships has become a major focus of strategic marketing today. Firms need to understand the value of paying customers, but also the value of customers subsidized by other customers. Employment agencies, dating services, and even IT providers provide the word-of-mouth advertising and social networking value for so-called free customers. Customers attracting other customers can grow your business.³³

Through the use of Internet-based marketing strategies (e-marketing), companies can personalize customer relationships on a nearly one-on-one basis. A wide range of products, such as computers, jeans, golf clubs, cosmetics, and greeting cards, can be tailored for specific customers. Customer relationship management provides a strategic bridge between information technology and marketing strategies aimed at long-term relationships. This involves finding and retaining customers by using information to improve customer value and satisfaction.



Entrepreneurship in Marketing

Tom Davies Customizes Eyewear

Can't get that pair of glasses to fit right? Tom Davies Eyewear, owned by British entrepreneur Tom Davies, has the answer with customization. Customers choose the frames they desire, and opticians take precise measurements to create that perfect fit. Davies utilizes a proprietary Internet process called Supertool that allows the company's optician partners to send measurements and design choices straight to his workshop in China. About a month later, customers get their own customized eyewear. The concept has strong potential for those who want fashionable frames or who have a hard time finding glasses that are the right size (e.g., people with small heads often resort to children's frames). Tom Davies products have already taken off with celebrities, with customers including Kevin Bacon and Middle Eastern royalty. However, at \$600, they might still be beyond the price range of the average consumer.^c

relationship marketing

Establishing long-term, mutually satisfying buyer-seller relationships

customer relationship management (CRM)

Using information about customers to create marketing strategies that develop and sustain desirable customer relationships



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Value-Driven Marketing

Avis focuses on value and service quality at a reasonable price.

Value-Driven Marketing

Value is an important element of managing long-term customer relationships and implementing the marketing concept. We view **value** as a customer's subjective assessment of benefits relative to costs in determining the worth of a product (customer value = customer benefits – customer costs). Value is achieved when a consumer gets all he or she wants from the purchase of a product. We assume consumers evaluate relevant choice criteria to arrive at eventual overall perception of a product's usefulness. Eventually, value is obtained by the benefits linked to product attributes and quality performance.³⁴

Customer benefits include anything a buyer receives in an exchange. Hotels and motels, for example, basically provide a room with a bed and bathroom, but each firm provides a different level of service, amenities, and atmosphere to satisfy its guests. Hampton Inns offers the minimum services necessary to maintain a quality, efficient, low-price overnight accommodation. In contrast, the Ritz-Carlton provides every imaginable service a guest might desire and strives to ensure that all service is of the highest quality. Customers judge which type of accommodation offers the best value according to the benefits they desire and their willingness and ability to pay for the costs associated with the benefits.

Customer costs include anything a buyer must give up to obtain the benefits the product provides. The most obvious cost is the monetary price of the product, but nonmonetary costs can be equally important in a customer's determination of value.

Two nonmonetary costs are the time and effort customers expend to find and purchase desired products. To reduce time and effort, a company can increase product availability, thereby making it more convenient for buyers to purchase the firm's products. Another nonmonetary cost is risk, which can be reduced by offering good basic warranties or extended warranties for an additional charge.³⁵ Another risk-reduction strategy is the offer of a 100 percent satisfaction guarantee. This strategy is increasingly popular in today's catalog/telephone/Internet shopping environment. L.L.Bean, for example, uses such a guarantee to reduce the risk involved in ordering merchandise from its catalogs.

The process people use to determine the value of a product is not highly scientific. All of us tend to get a feel for the worth of products based on our own expectations and previous experience. We can, for example, compare the value of tires, batteries, and computers directly with the value of competing products. We evaluate movies, sporting events, and performances by entertainers on the more subjective basis of personal preferences and emotions. For most purchases, we do not consciously try to calculate the associated benefits and costs. It becomes an instinctive feeling that Kellogg's Corn Flakes are a good value or that McDonald's is a good place to take children for a quick lunch. The purchase of an automobile or a mountain bike may have emotional components, but more conscious decision making also may figure in the process of determining value.

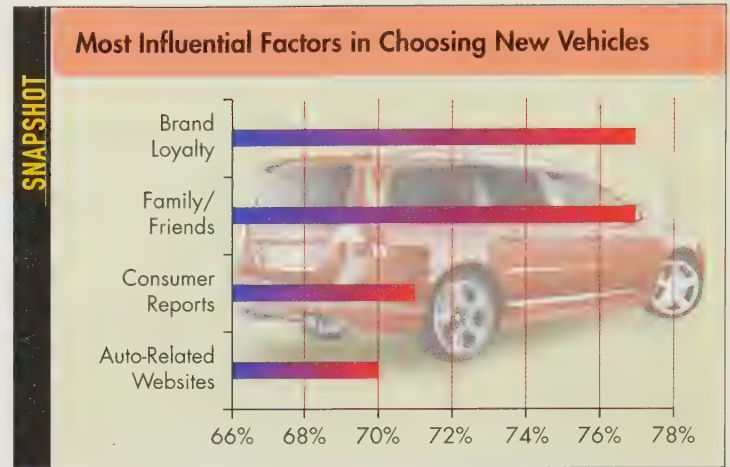
In developing marketing activities, it is important to recognize that customers receive benefits based on their experiences. For example, many computer buyers consider services such as fast delivery, ease of installation, technical advice, and training assistance to be important elements of the product. Customers also derive benefits from the act of shopping and selecting products. These benefits can be affected by the atmosphere or environment of a store, such as Red Lobster's nautical/seafood theme. Even the ease of navigating a website can

value

A customer's subjective assessment of benefits relative to costs in determining the worth of a product

have a tremendous impact on perceived value. For this reason, General Motors has developed a user-friendly way to navigate its website for researching and pricing vehicles. Using the Internet to compare a Chevrolet to a Mercedes could result in different users viewing each automobile as an excellent value. Owners have rated the Chevrolet as providing reliable transportation and having dealers who provide acceptable service. A Mercedes may cost twice as much but has been rated as a better engineered automobile that also has a higher social status than the Chevrolet. Different customers may view each car as being an exceptional value for their own personal satisfaction.

The marketing mix can be used to enhance perceptions of value. A product that demonstrates value usually has a feature or an enhancement that provides benefits. Promotional activities can also help to create image and prestige characteristics that customers consider in their assessment of a product's value. In some cases, value may be perceived simply as the lowest price. Many customers may not care about the quality of the paper towels they buy; they simply want the cheapest ones for use in cleaning up spills because they plan to throw them in the trash anyway. On the other hand, more people are looking for the fastest, most convenient way to achieve a goal and therefore become insensitive to pricing. For example, many busy customers are buying more prepared meals in supermarkets to take home and serve quickly, even though these meals cost considerably more than meals prepared from scratch. In such cases, the products with the greatest convenience may be perceived as having the greatest value. The availability or distribution of products also can enhance their value. Taco Bell wants to have its Mexican fast-food products available at any time and any place people are thinking about consuming food. It has therefore introduced Taco Bell products into supermarkets, vending machines, college campuses, and other convenient locations. Thus, the development of an effective marketing strategy requires understanding the needs and desires of customers and designing a marketing mix to satisfy them and provide the value they want.



Marketing Management

Marketing management is the process of planning, organizing, implementing, and controlling marketing activities to facilitate exchanges effectively and efficiently. Effectiveness and efficiency are important dimensions of this definition. *Effectiveness* is the degree to which an exchange helps to achieve an organization's objectives. *Efficiency* refers to minimizing the resources an organization must spend to achieve a specific level of desired exchanges. Thus, the overall goal of marketing management is to facilitate highly desirable exchanges and to minimize the costs of doing so. Companies such as IKEA need to manage their product lines to maximize revenue and customer satisfaction. The company has stopped selling incandescent light bulbs in the United States and Canada. The company instead will be selling compact fluorescent, LED, halogen, and solar-powered lamps or bulbs.³⁶

Planning is a systematic process of assessing opportunities and resources, determining marketing objectives, and developing a marketing strategy and plans for implementation and control. Planning determines when and how marketing activities are performed and who performs them. It forces marketing managers to think ahead, establish objectives, and

marketing management

The process of planning, organizing, implementing, and controlling marketing activities to facilitate exchanges effectively and efficiently.

consider future marketing activities and their impact on society. Effective planning also reduces or eliminates daily crises. We take a closer look at marketing strategies and plans in the next chapter.

Organizing marketing activities involves developing the internal structure of the marketing unit. The structure is the key to directing marketing activities. The marketing unit can be organized by functions, products, regions, types of customers, or a combination of all four.

Proper *implementation* of marketing plans hinges on coordination of marketing activities, motivation of marketing personnel, and effective communication within the unit. Marketing managers must motivate marketing personnel, coordinate their activities, and integrate their activities both with those in other areas of the company and with the marketing efforts of personnel in external organizations, such as advertising agencies and research firms. To move end of year models, Volkswagen has used a promotion called “Sign-THEN-Drive” to support sales. The promotion is tied to many popular models, and the words “Sign-THEN-Drive” signifies that the buyer’s security deposits are waived and the first monthly payment is made for the buyer. Such a marketing campaign involves print (magazine and newspaper), broadcast (television), Internet, and local store marketing.³⁷ An organization’s communication system must allow the marketing manager to stay in contact with high-level management, with managers of other functional areas within the firm, and with personnel involved in marketing activities both inside and outside the organization.

The marketing *control process* consists of establishing performance standards, comparing actual performance with established standards, and reducing the difference between desired and actual performance. An effective control process has four requirements. It should ensure a rate of information flow that allows the marketing manager to detect quickly any differences between actual and planned levels of performance. It must accurately monitor various activities and be flexible enough to accommodate changes. The costs of the control process must be low relative to costs that would arise without controls. Finally, the control process should be designed so that both managers and subordinates can understand it.

The Importance of Marketing in Our Global Economy

Our definition of marketing and discussion of marketing activities reveal some of the obvious reasons the study of marketing is relevant in today’s world. In this section, we look at how marketing affects us as individuals and at its role in our increasingly global society.

MARKETING COSTS CONSUME A SIZABLE PORTION OF BUYERS’ DOLLARS

Studying marketing will make you aware that many marketing activities are necessary to provide satisfying goods and services. Obviously, these activities cost money. About one-half of a buyer’s dollar goes toward marketing costs. If you spend \$16 on a new CD, 50 to 60 percent goes toward marketing expenses, including promotion and distribution, as well as profit margins. The production (pressing) of the CD represents about \$1, or 6 percent of its price. A family with a monthly income of \$3,000 that allocates \$600 to taxes and savings spends about \$2,400 for goods and services. Of this amount, \$1,200 goes toward marketing activities. If marketing expenses consume that much of your dollar, you should know how this money is being used.

MARKETING IS USED IN NONPROFIT ORGANIZATIONS

Although the term *marketing* may bring to mind advertising for Burger King, Volkswagen, and Apple, marketing is also important in organizations working to achieve goals other than ordinary business objectives (such as profit). Government agencies at the federal, state, and local levels engage in marketing activities to fulfill their mission and goals. The Centers for Disease Control and Prevention launched an ad campaign and website to promote the benefits of eating a minimum of five fruits and vegetables a day. The website promotes the health benefits of increased consumption of both food groups.³⁸ Universities and colleges engage in marketing activities to recruit new students, as well as to obtain donations from alumni and businesses.

In the private sector, nonprofit organizations also employ marketing activities to create, price, distribute, and promote programs that benefit particular segments of society. The Red Cross provides disaster relief throughout the world and offers promotional messages to encourage donations to support its efforts. For example, the massive earthquakes in Haiti in 2010 and Japan in 2011 prompted the Red Cross to release many promotional messages encouraging people to donate money for those affected by the disasters.

MARKETING IS IMPORTANT TO BUSINESSES

Businesses must sell products to survive and grow, and marketing activities help to sell their products. Financial resources generated from sales can be used to develop innovative products. New products allow a firm to satisfy customers' changing needs, which, in turn, enables the firm to generate more profits. Even nonprofit businesses need to “sell” to survive.

Marketing activities help to produce the profits that are essential to the survival of individual businesses. Without profits, businesses would find it difficult, if not impossible, to buy more raw materials, hire more employees, attract more capital, and create additional products that, in turn, make more profits. Without profits, marketers cannot continue to provide jobs and contribute to social causes.

MARKETING FUELS OUR GLOBAL ECONOMY

Profits from marketing products contribute to the development of new products and technologies. Advances in technology, along with falling political and economic barriers and the universal desire for a higher standard of living, have made marketing across national borders commonplace while stimulating global economic growth. As a result of worldwide communications and increased international travel, many U.S. brands have achieved widespread acceptance around the world. At the same time, customers in the United States have greater choices among the products they buy because foreign brands such as Toyota (Japan), Bayer (Germany), and Nestlé (Switzerland) sell alongside U.S. brands such as General Motors, Tylenol, and Chevron. People around the world watch CNN and MTV on Toshiba and



Nonprofit Organizations

The United Negro College Fund uses marketing to promote its cause.

Green Marketing



Japanese Firm Goes Global with Eco-Friendly Products

Y *oki-Monozukuri*, Japanese for “good/excellent” and “development/manufacturing of products,” is the chief value of leading Japanese beauty care and household products company Kao Corporation. Kao Corporation prides itself on providing quality products that consumers desire. In today’s global environment, this often means quality products that are eco-friendly and practical for different cultures.

Kao Corporation is up to the challenge. It realizes that to remain competitive, it must expand aggressively with products

that will reduce the company’s environmental footprint. This has given rise to Kao products like Attack Easy laundry detergent, which can clean with a single rinse to reduce water usage. Not only are these new products healthier for the environment, but they are more likely to take off in growing economies. For instance, China—a key growth prospect for Kao—suffers from water shortages. This makes Kao’s new water-saving products suitable for local populations. Kao demonstrates that innovative eco-friendly products can be sustainable both financially and environmentally.^d

Sony televisions they purchased at Walmart. Electronic commerce via the Internet now enables businesses of all sizes to reach buyers around the world. We explore the international markets and opportunities for global marketing in Chapter 9.

MARKETING KNOWLEDGE ENHANCES CONSUMER AWARENESS

Besides contributing to the well-being of our economy, marketing activities help to improve the quality of our lives. Studying marketing allows us to assess a product’s value and flaws more effectively. We can determine which marketing efforts need improvement and how to attain that goal. For example, an unsatisfactory experience with a warranty may make you wish for stricter law enforcement so that sellers would fulfill their promises. You also may wish that you had more accurate information about a product before you purchased it. Understanding marketing enables us to evaluate corrective measures (such as laws, regulations, and industry guidelines) that could stop unfair, damaging, or unethical marketing practices. Thus, understanding how marketing activities work can help you to be a better consumer.

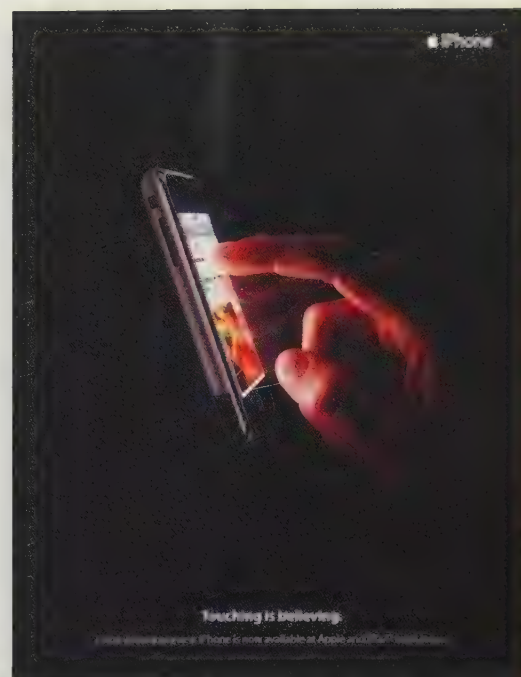
MARKETING CONNECTS PEOPLE THROUGH TECHNOLOGY

New technology, particularly technology related to computers and telecommunications, helps marketers to understand and satisfy more customers than ever before. Customers can provide feedback about their experiences with a company’s products both over the phone and online. Even products such as Dasani bottled water provide a customer service number and a website for questions or comments. This feedback helps marketers refine and improve their products to better satisfy customer needs. Today, marketers must recognize the impact not only of websites but of instant messaging, blogs, online forums, online games, mailing

lists, and wikis, as well as text messaging via cell phones and podcasts via MP3 players. Increasingly, these tools are facilitating marketing exchanges. Some restaurants, for example, are permitting customers to preorder their food and coffee products by sending text messages to the restaurants via their cell phones. One particular chain restaurant saw a 4 percent redemption rate with mobile coupons on Yowza, a free mobile application for smartphones. This was four times the redemption rate the chain saw with direct mail coupons.³⁹

The Internet allows companies to provide tremendous amounts of information about their products to consumers and to interact with them through e-mail and websites. A consumer shopping for a new car, for example, can access automakers' web pages, configure an ideal vehicle, and get instant feedback on its cost. Consumers can visit Autobytel, Edmund's, and other websites to find professional reviews and obtain comparative pricing information on both new and used cars to help them find the best value. They can also visit a consumer opinion site, such as Epinions.com, to read other consumers' reviews of the products. They can then purchase a vehicle online or at a dealership. A number of companies employ social media to connect with their customers, utilizing blogs and social networking sites such as Facebook and Twitter. We consider social networking and other digital media in Chapter 8.

Marketers of everything from computers to travel reservations use the Internet for transactions. Southwest Airlines, for example, books most of its passenger revenue via its website—making it the number one airline for online revenue generation.⁴⁰ The Internet also has become a vital tool for marketing to other businesses. Successful companies are using technology in their marketing strategies to develop profitable relationships with these customers.



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Marketing Connects People through Technology

Apple manages the development of technology to produce customer satisfaction and loyalty.

SOCIALLY RESPONSIBLE MARKETING CAN PROMOTE THE WELFARE OF CUSTOMERS AND STAKEHOLDERS

The success of our economic system depends on marketers whose values promote trust and cooperative relationships in which customers and other stakeholders are treated with respect. The public is increasingly insisting that social responsibility and ethical concerns be considered in planning and implementing marketing activities. Although some marketers' irresponsible or unethical activities end up on the front pages of *USA Today* or *The Wall Street Journal*, more firms are working to develop a responsible approach to developing long-term relationships with customers and other stakeholders. In one such instance, OfficeMax partnered with Adopt-A-Classroom, a nonprofit organization, to create an event to end teacher-funded classrooms. Once a year, OfficeMax makes 1,000 teachers' days better all across the United States by surprising them at school with more than \$1,000 in school supplies.⁴¹

In the area of the natural environment, companies are increasingly embracing the notion of **green marketing**, which is a strategic process involving stakeholder assessment to create meaningful long-term relationships with customers while maintaining, supporting, and enhancing the natural environment. Coca-Cola, for example, pledged to be a zero-waste carbon neutral sponsor of the Olympic Games in Vancouver. The company had beverages delivered to the facility with diesel-electric hybrid, heavy-duty vehicles; provided staff uniforms made from recycled bottles; and placed recycling bins throughout the venue; the company also worked toward carbon offsets for air and land travel. These are just a few of the initiatives the company developed to be a more green company and to reduce its impact on the environment.⁴²

green marketing

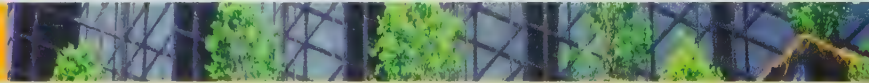
A strategic process involving stakeholder assessment to create meaningful long-term relationships with customers while maintaining, supporting, and enhancing the natural environment

By addressing concerns about the impact of marketing on society, a firm can contribute to society through socially responsible activities as well as increase its financial performance. For example, studies have revealed that market orientation combined with social responsibility improves overall business performance.⁴³ We examine these issues and many others as we develop a framework for understanding more about marketing in the remainder of this book.

MARKETING OFFERS MANY EXCITING CAREER PROSPECTS

From 25 to 33 percent of all civilian workers in the United States perform marketing activities. The marketing field offers a variety of interesting and challenging career opportunities throughout the world, such as personal selling, advertising, packaging, transportation, storage, marketing research, product development, wholesaling, and retailing. In addition, many individuals working for nonbusiness organizations engage in marketing activities to promote political, educational, cultural, church, civic, and charitable activities. Whether a person earns a living through marketing activities or performs them voluntarily for a nonprofit group, marketing knowledge and skills are valuable personal and professional assets.

CHAPTER REVIEW



1 Define *marketing*.

Marketing is the process of creating, pricing, distributing, and promoting goods, services, and ideas to facilitate satisfying exchange relationships with customers and to develop and maintain favorable relationships with stakeholders in a dynamic environment. The essence of marketing is to develop satisfying exchanges from which both customers and marketers benefit.

2 Understand several important marketing terms, including *target market*, *marketing mix*, *marketing exchanges*, and *marketing environment*.

A target market is the group of customers toward which a company directs a set of marketing efforts.

The variables—product, price, distribution, and promotion—are known as the marketing mix because marketing managers decide what type of each element to use and in what amounts. Marketing managers strive to develop a marketing mix that matches the needs of customers in the target market. Before marketers can develop a marketing mix, they must collect in-depth, up-to-date information about customer needs.

Individuals and organizations engage in marketing to facilitate exchanges—the provision or transfer of goods, services, and ideas in return for something of value. Four conditions must exist for an exchange to occur: (1) two or more individuals, groups, or organizations must participate, and each must possess something of value that the other party desires; (2) the exchange should provide a benefit or satisfaction to both parties involved in the transaction; (3) each party must have confidence in the promise of the “something of value” held by the other; and (4) to build trust, the parties to the exchange must meet expectations. Marketing activities should attempt to create and maintain satisfying exchange relationships with all stakeholders—those constituents who have a “stake,” or claim, in some aspect of a company’s products, operations, markets, industry, and outcomes.

The marketing environment, which includes competitive, economic, political, legal and regulatory, technological, and sociocultural forces, surrounds the customer and the marketing mix. These forces can create threats to marketers, but they also generate opportunities for new products and new methods of reaching customers.

3 Be aware of the marketing concept and market orientation.

According to the marketing concept, an organization should try to provide products that satisfy customers' needs through a coordinated set of activities that also allows the organization to achieve its goals. Customer satisfaction is the marketing concept's major objective. The philosophy of the marketing concept emerged in the United States during the 1950s after the production and sales eras. Organizations that develop activities consistent with the marketing concept become market-oriented organizations.

4 Understand the importance of building customer relationships.

Relationship marketing involves establishing long-term, mutually satisfying buyer–seller relationships. Customer relationship management (CRM) focuses on using information about customers to create marketing strategies that develop and sustain desirable customer relationships. Managing customer relationships requires identifying patterns of buying behavior and using that information to focus on the most promising and profitable customers.

Value is a customer's subjective assessment of benefits relative to costs in determining the worth of a product. Benefits include anything a buyer receives in an exchange, whereas costs include anything a buyer must give up to obtain the benefits the product provides.

5 Explain the major marketing functions that are part of the marketing management process.

Marketing management is the process of planning, organizing, implementing, and controlling marketing activities to facilitate effective and efficient exchanges. Planning is a systematic process of assessing opportunities and resources, determining marketing objectives, developing a marketing strategy, and preparing for implementation and control. Organizing marketing activities involves developing the marketing unit's internal structure. Proper implementation of marketing plans depends on coordinating marketing activities, motivating marketing personnel, and communicating effectively within the unit. The marketing control process consists of establishing performance standards, comparing actual performance with established standards, and reducing the difference between desired and actual performance.

6 Understand the role of marketing in our society.

Marketing costs absorb about half of each buyer's dollar. Marketing activities are performed in both business and nonprofit organizations. Marketing activities help business organizations to generate profits, and they help fuel the increasingly global economy. Knowledge of marketing enhances consumer awareness. New technology improves marketers' abilities to connect with customers. Socially responsible marketing can promote the welfare of customers and society. Finally, marketing offers many exciting career opportunities.

ONLINE RESOURCES

Please visit the student website at www.cengagebrain.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

marketing	3	stakeholders	9	value	16
customers	3	marketing environment	9	marketing management	17
target market	4	marketing concept	11	green marketing	21
marketing mix	4	market orientation	13		
product	6	relationship marketing	15		
exchanges	8	customer relationship management (CRM)	15		

ISSUES FOR DISCUSSION AND REVIEW

1. What is marketing? How did you define the term before you read this chapter?
2. What is the focus of all marketing activities? Why?
3. What are the four variables of the marketing mix? Why are these elements known as variables?
4. What conditions must exist before a marketing exchange can occur? Describe a recent exchange in which you participated.
5. What are the forces in the marketing environment? How much control does a marketing manager have over these forces?
6. Discuss the basic elements of the marketing concept. Which businesses in your area use this philosophy? Explain why.
7. How can an organization implement the marketing concept?
8. What is customer relationship management? Why is it so important to “manage” this relationship?
9. What is value? How can marketers use the marketing mix to enhance the perception of value?
10. What types of activities are involved in the marketing management process?
11. Why is marketing important in our society? Why should you study marketing?

MARKETING APPLICATIONS

1. Identify several businesses in your area that have not adopted the marketing concept. What characteristics of these organizations indicate non-acceptance of the marketing concept?
2. Identify possible target markets for the following products.
 - a. Kellogg's Corn Flakes
 - b. Wilson tennis rackets
 - c. Disney World
 - d. Diet Pepsi
3. Discuss the variables of the marketing mix (product, price, promotion, and distribution) as they might relate to each of the following.
 - a. A trucking company
 - b. A men's clothing store
 - c. A skating rink
 - d. A campus bookstore

ONLINE EXERCISE

4. The American Marketing Association (AMA) is the marketing discipline's primary professional organization. In addition to sponsoring academic research, publishing marketing literature, and organizing meetings of local businesspeople with student members, it helps individual members to find employment in member firms. Visit the AMA website at www.marketingpower.com.
 - a. What type of information is available on the AMA website to assist students in planning their careers and finding jobs?
 - b. If you joined a student chapter of the AMA, what benefits would you receive?
 - c. What marketing-mix variable does the AMA's Internet marketing effort exemplify?

DEVELOPING YOUR MARKETING PLAN

Successful companies develop strategies for marketing their products. The strategic plan guides the marketer in making many of the detailed decisions about the attributes of the product, its distribution, promotional activities, and pricing. A clear understanding of the foundations of marketing is essential in formulating a strategy and in the development of a specific marketing plan. To guide you in relating the information in this chapter to the development of your marketing plan, consider the following:

1. Discuss how the marketing concept contributes to a company's long-term success.
2. Describe the level of market orientation that currently exists in your company. How will a market orientation contribute to the success of your new product?
3. What benefits will your product provide to the customer? How will these benefits play a role in determining the customer value of your product?

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

METHOD FOR SUCCESS: MARKETING BEYOND GREEN

"People against dirty" is the intriguing slogan of the San Francisco-based home and body care brand Method. The founders say that they seek not only to clean our homes and bodies, but to remove harmful chemicals from our lives as well. All Method products are chemical-free and made with natural, safe ingredients. However, Method has not become one of the fastest growing brands in the United States (sold in more than 25,000 retail outlets) by focusing only on a green philosophy. The company has attracted customers with hip, eye-catching packaging and edgy marketing communications in online and traditional media.

Method was founded in 2000 by former roommates and high school friends Adam Lowry and Eric Ryan. Lowry was a chemical engineer who worked as a climatologist for the Carnegie Institute before becoming Method's "chief greens keeper." Ryan was a marketing expert with experience designing campaigns for The Gap and others before becoming Method's "chief brand architect." Joining forces to help wean people off of the harmful chemicals used to clean homes and bodies, Lowry and Ryan set out to develop products that were effective and natural, as well as packaged in great-looking containers.

Method's concept is not new. Companies such as Seventh Generation have been around for years, but they had difficulty breaking into the mainstream. When choosing distribution channels, Lowry and Ryan decided to steer away from co-ops

and health food stores and instead sought mass recognition and distribution at Target, Amazon.com, and other large companies. To make this channel strategy work, the founders knew that they could not charge the high prices established by other companies marketing eco-friendly cleaning products. They needed to compete head-on with the major cleaning brands.

Although they are dedicated to creating products that adhere to strict green standards, Lowry and Ryan agreed from the beginning that taking the green slant would not be the best way to sell their products. With deep-pocketed rivals such as Procter & Gamble and Clorox, the fight to get noticed on the shelf is fierce—which is why packaging has always been a major marketing emphasis for Method. To help their products stand out, Lowry and Ryan enlisted designer Karim Rashid (who has also designed for the likes of Prada and Dirt Devil) to create visually appealing packaging. The result is affordable cleaning products in highly attractive, recyclable bottles made from recycled materials. Customers drawn to the product for its looks or the all-natural scents will be purchasing more nonpolluting green products for their home without even knowing it. In the end, Lowry and Ryan want their approach to create a change in perspective among consumers previously uninterested in going green or unable to afford to do so.

In addition, Method has been ahead of the curve in developing new kinds of cleaning products. The company became an

industry leader when it created a triple-concentrated laundry detergent long before major companies began doing so. Method has also taken stock of competitive products already on the market and continually works on making its own brand's versions more eco-friendly. Examples include Method's dryer sheets and smartclean technology™. Conventional dryer sheets are coated in beef fat in order to create soft clothing, but this was unacceptable to Lowry. Looking for a vegetarian solution, the company developed dryer sheets coated with canola oil instead. Method's new laundry detergent utilizes cutting-edge green technology to create a detergent that is plant-based and eight times more concentrated.

Now, Method's annual revenues are nearing \$100 million, and the company is using multimedia advertising to turn its brand into a household name. One recent print and online campaign contrasted Method's products and packaging with those of the major brands, urging consumers to "Say no to jugs" (the large containers of detergent marketed by competitors) and "Get off the jugs and get clean." The ads communicated the benefits of

measuring precise amounts of Method's concentrated detergent from the easy-to-use pump bottle. They also highlighted the eco-friendly, low carbon footprint of Method's detergent.

Product quality, innovation, value, design, convenience, availability, and competitive advantage have all helped Method grow from a small, unknown company to a profitable mainstream business. Its founders have learned that smart marketing may be the best way to help the environment in the long run. The combination of targeting a fast-growing market segment and cultivating a unique, distinct personality for their green products has allowed Lowry and Ryan to keep Method growing year after year.⁴⁴

QUESTIONS FOR DISCUSSION

1. How has Method implemented the marketing concept?
2. Why is Method successful in a highly competitive industry?
3. Does the success of Method provide insights about the future of green marketing?

CHAPTER 2

Planning Marketing Strategies

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MARKETING INSIGHTS

If It's from Apple, iWant-It!

Since it began making computers in 1976, Apple's marketing strategies have been built around the "easy to use" customer benefit. The company's earliest computers—such as the Apple II and the original Macintosh—may seem clunky and slow by comparison to today's slim and speedy Apple models. However, they were as innovative for their time as the iPad tablet computer was when it debuted. Even the company's retail stores, a key part of its marketing mix, broke new ground for the way customers try out and buy electronics.

Today, thanks to careful planning and tight control, Apple rings up \$65 billion in annual revenue worldwide from a wide range of electronics products. Every year, it sells millions of Macintosh computers and iPod digital media gadgets. Apple's best-selling item is the iPhone, a touch-screen smartphone that can do everything from playing music and taking photos to checking e-mail and surfing YouTube. The touch-screen iPad tablet, a runaway hit, sold a whopping 1 million units in just 28 days. Its next generation version, the iPad 2, sold the same number of units during its first weekend.

Apple's marketing plans, which all focus on top-quality user experience, also aim to sell digital products. Despite the availability of free downloads that compete with paid music, Apple's easy-to-use iTunes online entertainment store has sold more than 10 billion songs since opening its virtual doors in 2003. Its App Store, which offers downloadable software to enhance the utility of iPhones and iPods, was so successful that the firm opened a Mac App Store. Still, with red-hot global competition, Apple must constantly plan to counter the marketing attacks of major competitors such as Dell, Samsung, and Google's Android.¹

OBJECTIVES:

- 1 Describe the strategic planning process.
- 2 Explain how organizational resources and opportunities affect the planning process.
- 3 Understand the role of the mission statement in strategic planning.
- 4 Examine corporate, business-unit, and marketing strategies.
- 5 Understand the process of creating the marketing plan.
- 6 Describe the marketing implementation process and the major approaches to marketing implementation.

With competition increasing, Apple and many other companies are spending more time and resources on strategic planning—that is, on determining how to use their resources and capabilities to achieve their objectives and satisfy their customers. Often, the most innovative ideas come from the most creative and innovative entrepreneurs. The truly successful entrepreneurs also market their products effectively—a marketing plan is the key roadmap to success.

Although most of this book deals with specific marketing decisions and strategies, this particular chapter focuses on “the big picture”: all the functional areas and activities—finance, production, human resources, and research and development, as well as marketing—that must be coordinated to reach organizational goals. To effectively implement the marketing concept of satisfying customers and achieving organizational goals, all organizations must engage in strategic planning.

We begin this chapter with an overview of the strategic planning process. Next, we examine how organizational resources and opportunities affect strategic planning and the role played by the organization’s mission statement. After discussing the development of both corporate and business-unit strategy, we explore the nature of marketing strategy and the creation of the marketing plan. These elements provide a framework for the development and implementation of marketing strategies, as we will see throughout the remainder of this book.

strategic planning

The process of establishing an organizational mission and formulating goals, corporate strategy, marketing objectives, marketing strategy, and a marketing plan

Understanding the Strategic Planning Process



Courtesy of the Advertising Archives

Marketing Strategy

Lucozade aims this ad at a specific target market and has developed a marketing mix to meet the needs of the people in this market.

Through the process of **strategic planning**, a company establishes an organizational mission and formulates goals, a corporate strategy, marketing objectives, a marketing strategy, and, finally, a marketing plan.² A market orientation should guide the process of strategic planning to ensure that a concern for customer satisfaction is an integral part of the process and permeates the entire company. A market orientation is also important for the successful implementation of marketing strategies.³ Figure 2.1 shows the components of strategic planning.

The process begins with a detailed analysis of the organization’s strengths and weaknesses and with the identification of opportunities and threats within the marketing environment and industry. Based on this analysis, the company can establish or revise its mission and goals and then develop corporate strategies to achieve those goals. Next, each functional area of the organization (marketing, production, finance, human resources, etc.) establishes its own objectives and develops strategies to achieve them that are in line with the company’s corporate strategy. Thus, the objectives and strategies of each functional area must support the organization’s overall goals and mission and should also be coordinated with a focus on market orientation.

Because our focus is marketing, we are, of course, most interested in the development of marketing objectives and

FIGURE 2.1 Components of Strategic Planning

Source: O.C. Ferrell and Michael Hartline, *Marketing Strategy*, Third Edition, © 2005 South-Western, a part of Cengage Learning, Inc. Reproduced by permission. www.cengage.com/permissions.

strategies. Marketing objectives should be designed so their achievement will contribute to the corporate strategy and so they can be accomplished through efficient use of the company's marketing and nonmarketing resources. To achieve its marketing objectives, an organization must develop a **marketing strategy**, which includes identifying and analyzing a target market and developing a marketing mix to meet the needs of individuals in that market or segment of particular interest.

A marketing strategy includes a plan of action for developing, distributing, promoting, and pricing products that meet the needs of the target market. Marketing strategy is best formulated when it reflects the overall direction of the organization and is coordinated with all of the company's functional areas. When properly implemented and controlled, a marketing strategy will contribute to the achievement not only of marketing objectives but also of the organization's overall goals. Consider that Apple's successful marketing strategy for its iPhone smartphone helped revitalize the computer company's reputation for excellent design, which transfers to other Apple products such as the iPad tablet.

The strategic planning process ultimately yields a marketing strategy that is the framework for a **marketing plan**, a written document that specifies the marketing activities to be performed to implement and control the organization's marketing activities. In the remainder of this chapter, we discuss the major components of the strategic planning process: organizational opportunities and resources, organizational mission and goals, corporate and business-unit strategy, marketing strategy, and the role of the marketing plan.

marketing strategy

A plan of action for identifying and analyzing a target market and developing a marketing mix to meet the needs of that market

marketing plan

A written document that specifies the activities to be performed to implement and control the organization's marketing activities

core competencies

Things a company does extremely well, which sometimes give it an advantage over its competition

market opportunity

A combination of circumstances and timing that permits an organization to take action to reach a particular target market

strategic windows

Temporary periods of optimal fit between the key requirements of a market and the particular capabilities of a company competing in that market

competitive advantage

The result of a company matching a core competency to opportunities it has discovered in the marketplace

Assessing Organizational Resources and Opportunities

The strategic planning process begins with an analysis of the marketing environment, including a thorough analysis of the industry in which the company is operating or intends to sell its products. As we will see in Chapter 3, economic, competitive, political, legal and regulatory, sociocultural, and technological forces can threaten an organization and influence its overall goals; they also affect the amount and type of resources the company can acquire. However, these environmental forces can create favorable opportunities as well—opportunities that can be translated into overall organizational goals and marketing objectives. The organization's culture and the knowledge it has about the environment affect the extent to which managers perceive such opportunities as situations on which they can successfully capitalize in the marketplace.

Any strategic planning effort must assess the organization's available financial and human resources and capabilities as well as how the level of these factors is likely to change in the future, because additional resources may be needed to achieve the organization's goals and mission. Resources indirectly affect marketing and financial performance by helping to create customer satisfaction and loyalty. Resources can also include goodwill, reputation, and brand names. The reputation and well-known brand names of Rolex watches and BMW automobiles, for example, are resources that give these companies an advantage over their competitors. Such strengths also include **core competencies**, things a company does extremely well—sometimes so well that they give the company an advantage over its competition.

Walmart's core competency, which is efficiency in supply-chain management, has enabled the chain to build a strong reputation for low prices at high quality levels on a wide variety of goods.

Analysis of the marketing environment involves not only an assessment of resources but also identification of opportunities in the marketplace. An aspect of this environmental analysis is to understand the company's own industry or industries in which it markets its products and services. When the right combination of circumstances and timing permits an organization to take action to reach a particular target market, a **market opportunity** exists. For example, after consumers began to perceive bottled water as having a negative impact on the natural environment because of their plastic containers, Sigg USA recognized a market opportunity for its reusable aluminum water bottles. The bottles can be refilled with tap water (or any filtered water) and carried easily, making them both more environmentally friendly and economical than bottled water.⁴ Such opportunities are often called **strategic windows**, temporary periods of optimal fit between the key requirements of a market and the particular capabilities of a company competing in that market.⁵

When a company matches a core competency to opportunities it has discovered in the marketplace, it is said to have a **competitive advantage**. In some cases, a company may possess manufacturing, technical, or marketing skills that it can match to market opportunities to create a competitive advantage. For instance, Tesco, a large-scale grocery chain from the United Kingdom, entered the western U.S. market with its Fresh & Easy Neighborhood Markets. The company seeks competitive

**Competitive Advantage**

Truvia is a natural sweetener that has a competitive advantage over sugar because it contains zero calories.

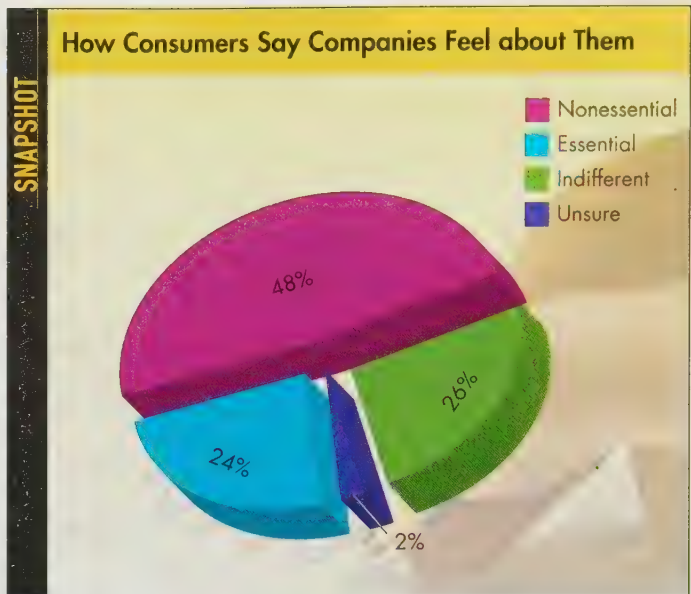
advantage by offering cheap, healthy food options such as 98-cent produce packages and cheap cuts of meat. In addition to being a good value, the stores seek to source produce and meats locally as much as possible, offer organic and hormone-free foods, and use less energy than typical grocery stores.⁶

SWOT ANALYSIS

One tool marketers use to assess an organization's strengths, weaknesses, opportunities, and threats is the **SWOT analysis**. Strengths and weaknesses are internal factors that can influence an organization's ability to satisfy its target markets. *Strengths* refer to competitive advantages or core competencies that give the company an advantage in meeting the needs of its target markets. John Deere, for example, promotes its service, experience, and reputation in the farm equipment business to emphasize the craftsmanship used in its lawn tractors and mowers for city dwellers. *Weaknesses* refer to any limitations a company faces in developing or implementing a marketing strategy. Consider that AOL, once the leading Internet service provider, watched its customer base shrivel as consumers opted for low-priced and free Internet service providers. Both strengths and weaknesses should be examined from a customer perspective because they are meaningful only when they help or hinder the company in meeting customer needs. Only those strengths that relate to satisfying customers should be considered true competitive advantages. Likewise, weaknesses that directly affect customer satisfaction should be considered competitive disadvantages. To boost profits, AOL altered its marketing model, effectively ending paid subscribership in favor of advertising-driven revenues. To achieve its goals, the Internet provider made much of its content, including e-mail, free.⁷

Opportunities and threats exist independently of the company and therefore represent issues to be considered by all organizations, even those that do not compete with the company. *Opportunities* refer to favorable conditions in the environment that could produce rewards for the organization if acted on properly. That is, opportunities are situations that exist but must be exploited for the company to benefit from them. *Threats*, on the other hand, refer to conditions or barriers that may prevent the company from reaching its objectives. Threats must be acted upon to prevent them from limiting the organization's capabilities. Opportunities and threats can stem from many sources within the environment. When a competitor's introduction of a new product threatens a company, a defensive strategy may be required. If the company can develop and launch a new product that meets or exceeds the competition's offering, it can transform the threat into an opportunity.

Figure 2.2 depicts a four-cell SWOT matrix that can help managers in the planning process. When an organization matches internal strengths to external opportunities, it creates competitive advantages in meeting the needs of its customers. In addition, an organization should act to convert internal weaknesses into strengths and external threats into opportunities. Consider Apple's iPhone, which after a few years of being exclusively offered to only AT&T customers became available to Verizon customers as well. Although this development was a threat to AT&T's success, the company chose to convert it into a business opportunity. AT&T began running ads stating that iPhones worked faster and functioned better on its network. AT&T also worked to convert its own internal weaknesses into strengths



Source: American Express Global Customer Service Barometer, survey conducted by Echo Research, http://about.americanexpress.com/news/docs/2011/AXP_2011_csbar_market.pdf.

SWOT analysis

Assessment of an organization's strengths, weaknesses, opportunities, and threats

FIGURE 2.2 The Four-Cell SWOT Matrix

Source: Adapted from Nigel F. Piercy, *Market-Led Strategic Change*. Copyright © 1992 Butterworth-Heinemann Ltd., p. 371. Reprinted with permission.

by coming out with new devices, improving the quality of its network, cutting the prices of older iPhones, and giving current iPhone customers accelerated upgrades to the newest version of the iPhone when they signed a new long-term contract. These changes were part of an overall strategy by AT&T to minimize the number of customers lost to Verizon and possibly draw in some of Verizon's customers.⁸

Establishing an Organizational Mission and Goals

Once an organization has assessed its resources and opportunities, it can begin to establish goals and strategies to take advantage of those opportunities. The goals of any organization should derive from its **mission statement**, a long-term view of what the organization wants to become. Herbal tea marketer Celestial Seasonings, for example, has a stated commitment to social responsibility, truth, beauty, quality and goodness when it comes to its product.⁹

When an organization decides on its mission, it really answers two questions. Who are our customers? What is our core competency? Although these questions appear very simple, they are two of the most important questions any company must answer. Defining customers' needs and wants gives direction to what the company must do to satisfy them.

Companies try to develop and manage their *corporate identity*—their unique symbols, personalities, and philosophies—to support all corporate activities, including marketing. Managing identity requires broadcasting mission goals and values, sending a consistent image, and implementing visual identity with stakeholders. Mission statements, goals, and objectives must be properly implemented to achieve the desired corporate identity. Johnson & Johnson developed a credo and identity-based principles of responsibility to consumers, employees, the community, and shareholders worldwide. An organization's goals and objectives, derived from its mission statement, guide the remainder of its planning efforts. Goals focus on the end results the organization seeks. Johnson Controls, for example, developed a

mission statement

A long-term view, or vision, of what the organization wants to become



How Do Corporations Really Commit to Being Green?

A growing number of companies are thinking green as they set organizational missions and goals. For environmental mission statements to be effective in shaping the firm's plans and actions, top managers need to understand and articulate their reasons for going green. They also must establish specific goals and decide how they will measure ongoing progress toward those goals.

For example, here's how the Hilton Worldwide hotel chain states its environmental mission: "Our objective is to lead our industry with products and programs that not only deliver

great guest experiences, but protect the world we live in. It's how we provide for today's needs while positively influencing tomorrow." To achieve that mission, Hilton's executives set five-year goals for improving sustainability by reducing energy and water consumption, supporting renewable energy, and implementing greener operations. In addition, they arranged for an independent auditor to measure results at regular intervals and help establish benchmarks for future environmental improvements.⁹

vision—"a more comfortable, safe and sustainable world"—to highlight its goal of helping customers add value to their daily lives by using its diverse industrial products. The industrial conglomerate also revamped its corporate logo and introduced a new slogan, "Ingenuity Welcome." In addition to a new advertising campaign, the firm will add the new corporate logo to a number of the company's well-known brands, including HomeLink (garage door openers), York (air-conditioning and heating products), Optima (batteries), and Varta (auto batteries).¹⁰

A **marketing objective** states what is to be accomplished through marketing activities. These objectives can be stated in terms of product introduction, product improvement or innovation, sales volume, profitability, market share, pricing, distribution, advertising, or employee training activities. A marketing objective of Ritz-Carlton hotels, for example, is to have more than 90 percent of its customers indicate that they had a memorable experience at the hotel. Marketing objectives should be based on a careful study of the SWOT analysis and should relate to matching strengths to opportunities and/or eliminating weaknesses or threats. With nearly one out of four consumer airline flights delayed, making significant improvements in on-time performance—such as having 90 percent on-time arrivals—would be a good marketing objective for an airline.

Marketing objectives should possess certain characteristics. First, a marketing objective should be expressed in clear, simple terms so all marketing and nonmarketing personnel in the company understand exactly what they are trying to achieve. Second, an objective should be written so it can be measured accurately. This allows the organization to determine if and when the objective has been achieved. For instance, if an objective is to increase market share by 10 percent in the U.S. marketplace, the company should be able to measure market share changes accurately in the United States. Third, a marketing objective should specify a time frame for its accomplishment. A company that sets an objective of introducing a new product should state the time period in which to do this. Finally, a marketing objective should be consistent with both business-unit and corporate strategy. This ensures that the company's mission is carried out at all levels of the organization and by both marketing and nonmarketing personnel.

marketing objective

A statement of what is to be accomplished through marketing activities

Marketing Objectives

Chrysler uses this advertisement to help achieve its marketing objective of communicating with customers about the company's focus on improved product quality.



Developing Corporate, Business-Unit, and Marketing Strategies

In most organizations, strategic planning typically begins at the corporate level and proceeds downward to the business-unit and marketing levels. However, more and more, organizations are developing strategies and conducting strategic planning both from the top-down and from the bottom-up. This means that companies often seek out the best expertise from multiple levels of the organization, not just from the corporate leadership, to do strategic planning. Corporate strategy is the broadest of the three levels of strategy (i.e., corporate, business unit, and marketing) and should be developed with the organization's overall mission in mind. Business-unit strategy should be consistent with the corporate strategy, and marketing strategy should be consistent with both the business-unit and corporate strategies. Figure 2.3 shows the relationships among these planning levels.

CORPORATE STRATEGY

Corporate strategy determines the means for utilizing resources in the functional areas of marketing, production, finance, research and development, and human resources to reach the organization's goals. A corporate strategy determines not only the scope of the business but also its resource deployment, competitive advantages, and overall coordination of functional areas. In particular, top management's marketing expertise and deployment of resources for addressing markets contribute to sales growth and profitability.¹¹ Corporate strategy addresses the two questions posed in the organization's mission statement. Who are our customers? What is our core competency? The term *corporate* in this context does not apply solely to corporations; corporate strategy is used by all organizations, from the smallest sole proprietorship to the largest multinational corporation. Corporate strategy simply refers to the top-level (i.e., highest) strategy developed within an organization.

corporate strategy

A strategy that determines the means for utilizing resources in the various functional areas to reach the organization's goals

FIGURE 2.3 Levels of Strategic Planning

Corporate strategy planners are concerned with broad issues such as corporate culture, competition, differentiation, diversification, interrelationships among business units, and environmental and social issues. They attempt to match the resources of the organization with the opportunities and threats in the environment. Google, for example, purchased YouTube for \$1.65 billion after recognizing that the video-sharing website's rapid growth represented a shift in how consumers view videos.¹² Corporate strategy planners are also concerned with defining the scope and role of the company's business units so the units are coordinated to reach the ends desired. A company's corporate strategy may affect its technological competence and ability to innovate.¹³

BUSINESS-UNIT STRATEGY

After analyzing corporate operations and performance, the next step in strategic planning is to determine future business directions and develop strategies for individual business units. A **strategic business unit (SBU)** is a division, product line, or other profit center within the parent company. Kraft's strategic business units, for example, consist of dairy products, snack foods, lunch meat, coffee, juice, and chocolate. Each of these units sells a distinct set of products to an identifiable group of customers, and each competes with a well-defined set of competitors. The revenues, costs, investments, and strategic plans of each SBU can be separated from those of the parent company and evaluated. SBUs operate in a variety of markets, all with differing growth rates, opportunities, degrees of competition, and profit-making potential. Recognizing this, Procter & Gamble implemented business strategies in the 1990s that were intended to reduce the company's reliance on two SBUs that had accounted for 85 percent of P&G's value in the 1990s, but were

strategic business unit (SBU)

A division, product line, or other profit center within the parent company

declining. By the 21st century, the multinational corporation's portfolio was spread across 22 different categories to balance fast-growing, high-margin businesses, such as home and beauty products, with foundational segments like baby care and laundry.¹⁴ (See Figure 2.4) Business strategy is fundamentally focused on the measures required to create value for the company's target markets and achieve greater performance. Marketing research suggests that this requires implementing appropriate strategic actions and targeting appropriate market segments.¹⁵

Strategic planners should recognize the strategic performance capabilities of each SBU and carefully allocate scarce resources among those divisions. Several tools allow a company's portfolio of strategic business units, or even individual products, to be classified and visually displayed according to the attractiveness of various markets and the business's relative market share within those markets. A **market** is a group of individuals and/or organizations that have needs for products in a product class and have the ability, willingness, and authority to purchase those products. The percentage of a market that actually buys a specific product from a particular company is referred to as that product's (or business unit's) **market share**. Apple, for example, controls 76 percent of the market for digital music players in the United States with its iPod line, while Microsoft's Zune has only 1 percent.¹⁶ Product quality, order of entry into the market, and market share have been associated with SBU success.¹⁷

market

A group of individuals and/or organizations that have needs for products in a product class and have the ability, willingness, and authority to purchase those products

market share

The percentage of a market that actually buys a specific product from a particular company

FIGURE 2.4 Developing Strategic Business Units for Performance at Procter & Gamble



Source: Adapted from "Designed to Grow," 2007 Annual Report, Procter & Gamble, p. 5.

One of the most helpful tools is the **market growth/market share matrix**, the Boston Consulting Group (BCG) approach, which is based on the philosophy that a product's market growth rate and its market share are important considerations in determining its marketing strategy. All the company's SBUs and products should be integrated into a single, overall matrix and evaluated to determine appropriate strategies for individual products and overall portfolio strategies. Managers can use this model to determine and classify each product's expected future cash contributions and future cash requirements. The BCG analytical approach is more of a diagnostic tool than a guide for making strategy prescriptions.

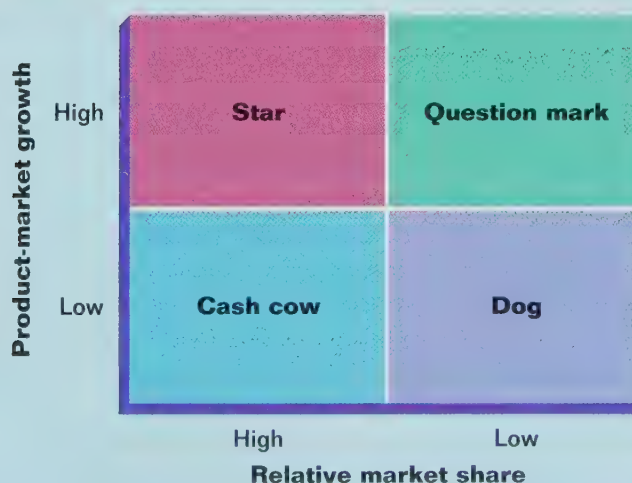
Figure 2.5, which is based on work by the BCG, enables the strategic planner to classify a company's products into four basic types: stars, cash cows, dogs, and question marks. *Stars* are products with a dominant share of the market and good prospects for growth. However, they use more cash than they generate to finance growth, add capacity, and increase market share. An example of a star might be Nintendo's Wii video game system. *Cash cows* have a dominant share of the market but low prospects for growth; typically they generate more cash than is required to maintain market share. Bounty, one of the best-selling towel brands in the United States, represents a cash cow for Procter & Gamble. *Dogs* have a subordinate share of the market and low prospects for growth; these products are often found in established markets. Portable compact disc (CD) players may be considered dogs at companies like Sony and Panasonic. The increasing popularity and affordability of iPods and other MP3 players has resulted in plummeting profits and market share for portable CD players. *Question marks*, sometimes called "problem children," have a small share of a growing market and generally require a large amount of cash to build market share. Mercedes carbon racing bikes, for example, are a question mark relative to Mercedes' automobile products.

The long-term health of an organization depends on having some products that generate cash (and provide acceptable profits) and others that use cash to support growth. Among the indicators of overall health are the size and vulnerability of the cash cows; the prospects for the stars, if any; and the number of question marks and dogs. Particular attention should be paid to those products with large cash appetites. Unless the company has an abundant cash flow, it cannot afford to sponsor many such products at one time.

market growth/market share matrix

A helpful business tool, based on the philosophy that a product's market growth rate and its market share are important considerations in determining its marketing strategy

FIGURE 2.5 Growth-Share Matrix Developed by the Boston Consulting Group



Source: *Perspectives*, No. 66, "The Product Portfolio." Reprinted by permission from The Boston Consulting Group, Inc., Boston, MA. © 1970.

Emerging Trends in Marketing



Are Hybrid Cars a Question Mark?

With increasing energy costs and concerns over climate change, hybrid cars were thought to be a viable alternative to traditional vehicles. The Toyota Prius has sold more than 1 million hybrids and now faces competition from vehicles such as the Ford Focus Hybrid and the Honda Civic Hybrid. On the other hand, traditional gasoline models such as the Hyundai Elantra, with gas mileage of 40 miles per gallon or more, have become more economical competitors. The market share of hybrids dropped from 3.6 percent of automobile sales to 1.6 percent within a two-year period. The biggest deterrent for many consumers is the cost

of hybrids. Hybrid vehicles on average cost \$6,000 more than other cars.

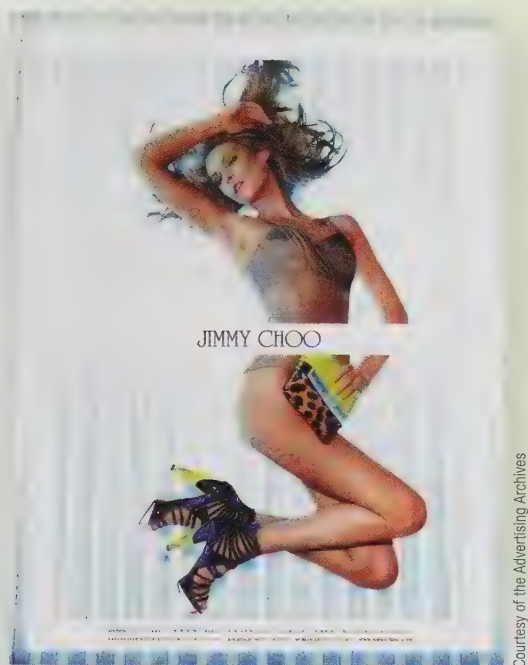
However, the hybrid should not be discounted just yet. Car companies such as Hyundai are investing in new technology to lower the costs of hybrids. Additionally, analysts predict that hybrids will continue to grow so that automobile manufacturers will be able to meet the government's mandate for lower emission standards. The hybrid still has the chance to move from a question mark to a star.^b

If resources, including debt capacity, are spread too thin, the company will end up with too many marginal products and will be unable to finance promising new-product entries or acquisitions in the future.

MARKETING STRATEGY

The next phase in strategic planning is the development of sound strategies for each functional area of the organization, including marketing. Corporate strategy and marketing strategy must balance and synchronize the organization's mission and goals with stakeholder relationships. This means that marketing must deliver value and be responsible in facilitating effective relationships with all relevant stakeholders.¹⁸ Consider that customers depend on the Coca-Cola Company to provide a standardized, reliable, satisfying soft drink or beverage any place in the world. Due to its efforts to expand distribution to every possible location, 79 percent of Coca-Cola's revenue comes from sales that occur outside the United States and 21 percent within the United States.¹⁹ The company continues to introduce new products, expand distribution, and maintain a high-quality product. Coca-Cola is also a good "corporate citizen," donating millions of dollars to education, health and human services, and disaster-plagued regions each year. An effective marketing strategy must gain the support of key stakeholders, including employees, investors, and communities, as well as channel members. The complexity of marketing strategy decisions requires the identification of key stakeholders and their support or reaction to marketing activities.²⁰ A need exists in marketing to develop more of a stakeholder orientation to go beyond markets, competitors, and channel members to understand and address all stakeholder concerns.²¹

Within the marketing area, a strategy is typically designed around two components: the selection of a target market and the creation of a marketing mix (considered marketing's tactical variables or action elements) that will satisfy the needs of the chosen target market. A marketing strategy articulates the best use of the company's resources and tactics to achieve its marketing objectives. It should also match customers' desires for value with the



Target Market Selection

Jimmy Choo shoes target high-income, fashion-oriented customers. Shoe brands sold at DSW target value-conscious shoppers.

organization's distinctive capabilities. Internal capabilities should be used to maximize external opportunities. The planning process should be guided by market-oriented organizational culture and procedures.²²

A comprehensive strategy involves a thorough search for information, the analysis of many potential courses of action, and the use of specific criteria for making decisions regarding strategy development and implementation.²³ When properly implemented, a sound marketing strategy enables a company to achieve its business-unit and corporate objectives. Although corporate, business-unit, and marketing strategies all overlap to some extent, the marketing strategy is the most detailed and specific of the three. Marketing strategy gets the company the closest to the customers and specifies in great detail what the company should do to satisfy the needs and wants of the customers.

Selecting the Target Market

Selecting an appropriate target market may be the most important decision a company makes in the strategic planning process. The target market must be chosen before the organization can adapt its marketing mix to meet the customers' needs and preferences. Defining the target market and developing an appropriate marketing mix are the keys to strategic success. Toyota, for example, designed its Yaris sedan to appeal to 18- to 34-year-olds by giving the compact cars a "mischievous" personality to complement their quirky styling and then promoting them where Generation Y consumers were likely to be. Toyota used Facebook (a user-generated-content website) and "mobisodes" (short mobile-phone episodes of popular television shows) to attract the attention of younger consumers. If a company selects the wrong target market, all other marketing decisions are likely to be made in vain.

Careful and accurate target market selection is crucial to productive marketing efforts. Products, and even whole companies, sometimes fail because marketers do not identify appropriate customer groups at whom to aim their efforts. Organizations that try to be all things to all people rarely satisfy the needs of any customer group very well. An organization's management, therefore, should designate which customer and stakeholder groups the company is trying to serve and gather adequate information about those groups. Identification

Marketing Debate



When Do Products Cross the Line?

ISSUE: *Should companies be allowed to market potentially harmful products?*

Not long ago, state and federal regulators became concerned about the appeal of an energy drink called Four Loko. Nicknamed “blackout in a can” by fans, it contained high levels of alcohol and caffeine. When several college students were hospitalized after consuming such drinks along with other alcoholic beverages, Four Loko (and its competitors) were pulled from store shelves and reformulated without the caffeine. However, products such as flavored, alcoholic whipped cream, which contains more alcohol than a beer, are widely available and may tempt underage consumers to overindulge.

Can such products be responsibly marketed? Critics say no, because younger consumers in particular may be unable to gauge how much alcohol they’re ingesting in highly flavored or caffeinated products. On the other hand, if the items are clearly labeled, targeted to adults, and not sold to teens—and if the firm uses appropriate promotional tactics—do such products cross the line?^c

and analysis of a target market provide a foundation on which the company can develop a marketing mix.

When exploring possible target markets, marketing managers try to evaluate how entering them would affect the company’s sales, costs, and profits. Marketing information should be organized to facilitate a focus on the chosen target customers. Accounting and information systems, for example, can be used to track revenues and costs by customer (or group of customers). In addition, managers and employees need to be rewarded for focusing on profitable customers. Teamwork skills can be developed with organizational structures that promote a customer orientation that allows quick responses to changes in the marketing environment.

Marketers should also assess whether the company has the resources to develop the right mix of product, price, promotion, and distribution (i.e., marketing mix) to meet the needs of a particular target market. In addition, they should determine if satisfying those needs is consistent with the company’s overall mission and objectives. The size and number of competitors already marketing products in potential target markets are concerns as well. When Amazon.com, the number-one Internet bookseller, began selling electronic products on its website, it made a strategic decision with the belief that efforts to target this larger customer market would increase profits and be consistent with the company’s objective to be the largest online retailer. The company’s marketing mix reflects this broad market by offering the latest products, attractive prices, effective promotions, and a website that facilitates distribution.

Creating the Marketing Mix

The selection of a target market serves as the basis for creating a marketing mix to satisfy the needs of that market. The deci-

sions made in creating a marketing mix are only as good as the organization’s understanding of its target market. This understanding typically comes from careful, in-depth research into the characteristics of the target market. Thus, although demographic information is important, the organization should also analyze customer needs, preferences, and behaviors with respect to product design, pricing, distribution, and promotion. Such is the case for Kimberly-Clark; its marketing researchers found that customers who buy Kleenex tissues have varied needs, so the company introduced a variety of packages, colors, and tissue types to meet the needs of its diverse target markets. These products ranged from tissues that are antiviral, for everyday use, with lotion, with different expressions, and ultra soft. The box shapes come in square, rectangle, and oval.

Marketing mix decisions should have two additional characteristics: consistency and flexibility. All marketing mix decisions should be consistent with the business-unit and corporate strategies. Such consistency allows the organization to achieve its objectives on all three levels of planning. Flexibility, on the other hand, permits the organization to alter the marketing mix in response to changes in market conditions, competition, and customer needs. Marketing strategy flexibility has a positive influence on organizational performance.

The concept of the four marketing mix variables has stood the test of time, providing marketers with a rich set of questions for the four most important decisions in strategic

marketing. Consider the efforts of Harley-Davidson to improve its competitive position. The company worked to improve its product by eliminating oil leaks and other problems and setting prices that customers consider fair. The company used promotional tools to build a community of Harley riders renowned for their camaraderie. Harley-Davidson also fostered strong relationships with the dealers that distribute the company's motorcycles and related products, which reinforced the company's promotional messages.

At the marketing mix level, a company can detail how it will achieve a competitive advantage. To gain an advantage, the company must do something better than its competition. In other words, its products must be of higher quality, its prices must be consistent with its products' level of quality (value), its distribution methods must be efficient and cost as little as possible, and its promotion must be more effective than the competition's. It is also important that the company attempt to make these advantages sustainable. A **sustainable competitive advantage** is one that the competition cannot copy in the foreseeable future. Walmart, for example, maintains a sustainable competitive advantage in groceries over supermarkets because of its highly efficient and low-cost distribution system. This advantage allows Walmart to offer lower prices and helps it gain the largest share of the supermarket business. Maintaining a sustainable competitive advantage requires flexibility in the marketing mix when facing uncertain competitive environments.

Creating the Marketing Plan

A major concern in the strategic planning process is **marketing planning**, the systematic process of assessing marketing opportunities and resources, determining marketing objectives, defining marketing strategies, and establishing guidelines for implementation and control of the marketing program. A key component of marketing planning is the development of a marketing plan. As noted earlier, a marketing plan is a written document that outlines and explains all the activities necessary to implement marketing strategies. The document is intended for both marketing and nonmarketing personnel in the company. It describes the company's current position or situation, establishes marketing objectives for the product or product group, and specifies how the organization will attempt to achieve those objectives.

For example, FLEXPETZ's "time-share pet" marketing plan for targeting dog lovers who do not have enough time to care for a pet full-time includes rental and registration fees of \$99.95 per month, and part-time owners can book their time with "their" pet online or by telephone. Each dog has an embedded GPS chip in case it strays and brings its own leash, chew toys, bed, bowls, and dog food to the customer's home. Customers are required to attend an hour-long training session and to rent their dog at least four times a month. The company's objectives also include opening more U.S. and European locations.²⁴

Developing a clear, well-written marketing plan, though time consuming, is important. The plan is the basis for internal communication among employees. It covers the assignment of responsibilities and tasks, as well as schedules for implementation. It presents objectives and specifies how resources are to be allocated to achieve those objectives. Finally, the marketing plan helps marketing managers monitor and evaluate the performance of a marketing strategy.

Marketing planning and implementation are inextricably linked in successful companies. The marketing plan provides a framework to stimulate thinking and offers strategic direction, whereas implementation occurs as an adaptive response to day-to-day issues, opportunities, and unanticipated situations—for example, increasing interest rates or an economic slowdown—that cannot be incorporated into marketing plans.

Organizations use many different formats when devising marketing plans. Plans may be written for strategic business units, product lines, individual products or brands, or specific markets. The key, however, is to make sure that the marketing plan is written in alignment

sustainable competitive advantage

An advantage that the competition cannot copy

marketing planning

The systematic process of assessing marketing opportunities and resources, determining marketing objectives, defining marketing strategies, and establishing guidelines for implementation and control of the marketing program

TABLE 2.1 Components of the Marketing Plan

Plan Component	Component Summary	Highlights
Executive summary	One- to two-page synopsis of the entire marketing plan	1. Stress key points 2. Include 1–3 key points that make the company unique
Environmental analysis	Information about the company's current situation with respect to the marketing environment	1. Assessment of marketing environment factors 2. Assessment of target market(s) 3. Assessment of current marketing objectives and performance
SWOT analysis	Assessment of the organization's strengths, weaknesses, opportunities, and threats	1. Strengths of the company 2. Weaknesses of the company 3. Opportunities in the environment and industry 4. Threats in the environment and industry
Marketing objectives	Specification of the company's marketing objectives	Qualitative measures of what is to be accomplished
Marketing strategies	Outline of how the company will achieve its objectives	1. Target market(s) 2. Marketing mix
Marketing implementation	Outline of how the company will implement its marketing strategies	1. Marketing organization 2. Activities and responsibilities 3. Implementation timetable
Evaluation and control	Explanation of how the company will measure and evaluate the results of the implemented plan	1. Performance standards 2. Financial controls 3. Monitoring procedures (audits)

with corporate and business-unit strategies and is accessible to and shared with all key employees. Marketing plans are critical parts of a company's overall strategy development, and they should go beyond the interests of marketing personnel to permeate the company's culture and all functional specialists in the company. Most plans share some common ground by including many of the same components. Table 2.1 describes the major parts of a typical marketing plan.

Implementing Marketing Strategies

marketing implementation

The process of putting marketing strategies into action

Marketing implementation is the process of putting marketing strategies into action. Although implementation is often neglected in favor of strategic planning, the implementation process itself can determine whether a marketing strategy succeeds. It is also important to recognize that marketing strategies almost always turn out differently than expected.

In essence, all organizations have two types of strategy: intended strategy and realized strategy.²⁵ The **intended strategy** is the strategy the organization decides on during the planning phase and wants to use, whereas the **realized strategy** is the strategy that actually takes place. The difference between the two is often the result of how the intended strategy is implemented. When Japanese fast-food restaurants were first introduced in the United States, they were generally located in food courts. However, Japanese- and Asian-fare fast-food chains such as Yoshinoya and Hibachi-San Japanese Grill are growing at three times the rate of other fast-food restaurants in the United States. Yoshinoya is Japan's largest beef-bowl restaurant franchise and has benefited from increasing numbers of global consumers seeking filling, tasty, budget-conscious meals.²⁶ The realized strategy, though not necessarily any better or worse than the intended strategy, often does not live up to planners' expectations.

CUSTOMER RELATIONSHIP MANAGEMENT

As we saw in Chapter 1, customer relationship management (CRM) focuses on using information about customers to create marketing strategies that develop and sustain desirable long-term customer relationships. The airline industry is a key player in CRM efforts with its frequent-flyer programs. In some sense, an argument can be made that the airline industry exemplifies the best (and, some would say, also the worst) of CRM practices. It all started in 1981 with American Airlines and the launch of their AAdvantage Program. Now most airlines have their own or even shared frequent-flyer programs. These programs track individual information about customers, using databases that can help airlines understand what different customers want, and treat customers differently depending on their flying habits. Relationship-building efforts like frequent-flyer programs have been shown to increase customer value.²⁷

CRM strives to build satisfying exchange relationships between buyers and sellers by gathering useful data at all customer-contact points—telephone, fax, Internet, and personal—and analyzing that data to better understand customers' needs, desires, and habits. It focuses on building and using databases and leveraging technologies to identify strategies and methods that will maximize the lifetime value of each desirable customer to the company. It is

intended strategy

The strategy the organization decides on during the planning phase and wants to use

realized strategy

The strategy that actually takes place

Customer Relationship Management

Southwest Airlines is dedicated to keeping customers happy and providing customer benefits in pricing, frequent-flyer programs, no ticket change fees, and no checked bag fees.

The screenshot displays the Southwest Airlines website. At the top, the logo and navigation links are visible. The main content area features a large image of a Southwest Airlines plane with a group of people standing in front of it. The text reads: "The mission of Southwest Airlines is dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit." To the right of the main content, there is a "Quick Air Links" section with links for "Check-in", "Manage My Flight", and "Check Flight Status". Below this is an "Account Login" section with fields for "Username or Account Number" and "Password", and a "Remember Me" checkbox. A "Star of the Month" section highlights Bernd Hofmeister as the National Manager of Flight Attendants.

imperative that marketers educate themselves about their customers' expectations if they are to satisfy their needs; customer dissatisfaction will only lead to defection.²⁸

CRM technologies help marketers identify specific customers, establish interactive dialogues with them to learn about their needs, and combine this information with their purchase histories to customize products to meet those needs. Like many online retailers, Amazon.com analyzes purchase data to understand each customer's interests. This information helps the retailer improve its ability to satisfy individual customers and thereby increases sales of books, music, movies, and other products to each customer. The ability to identify individual customers allows marketers to shift their focus from targeting groups of similar customers to increasing their share of an individual customer's purchases. Thus, the emphasis changes from *share of market* to *share of customer*.

Focusing on share of customer requires recognizing that all customers have different needs and that not all customers weigh the value of a company equally. CRM technologies help marketers analyze individual customers' purchases and identify the most profitable and loyal customers. The most basic application of this idea is the 80/20 rule: 80 percent of business profits come from 20 percent of customers. The goal is to assess the worth of individual customers and thus estimate their lifetime value to the company. The concept of *customer lifetime value* (CLV) may include not only an individual's propensity to engage in purchases but also his or her strong word-of-mouth communication about the company's products. Some customers—those who require considerable hand-holding or who return products frequently—may simply be too expensive to retain due to the low level of profits they generate. Companies can discourage these unprofitable customers by requiring them to pay higher fees for additional services.

CLV is a key measurement that forecasts a customer's lifetime economic contribution based on continued relationship marketing efforts. It can be calculated by taking the sum of the customer's present value contributions to profit margins over a specific time frame. For example, the lifetime value of a Lexus customer could be predicted by how many new automobiles Lexus could sell the customer over a period of years and a summation of the contribution to margins across the time period. Although this is not an exact science, knowing a customer's potential lifetime value can help marketers determine how best to allocate resources to marketing strategies to sustain that customer over a lifetime.

APPROACHES TO MARKETING IMPLEMENTATION

Just as organizations can achieve their goals by using different marketing strategies, they can also implement their marketing strategies by using different approaches. Three common approaches involve customer relationship management, internal marketing, and total quality management. Customer relationship management was already discussed in Chapter 1, so this section will discuss internal marketing and total quality management. Each approach represents a mindset that marketing managers may adopt when organizing and planning marketing activities. These approaches are not mutually exclusive; indeed, many companies adopt more than one when designing marketing activities.

Internal Marketing

External customers are the individuals who patronize a business—the familiar definition of “customers”—whereas **internal customers** are the company's employees. For implementation to succeed, the needs of both groups of customers must be met. If internal customers are not satisfied, it is likely that external customers will not be satisfied either. Thus, in addition to targeting marketing activities at external customers, a company uses internal marketing to attract, motivate, and retain qualified internal customers by designing internal products (jobs) that satisfy their wants and needs. **Internal marketing** is a management philosophy

external customers

Individuals who patronize a business—the familiar definition of “customers”

internal customers

The company's employees

internal marketing

A management philosophy that coordinates internal exchanges between the organization and its employees to achieve successful external exchanges between the organization and its customers

that coordinates internal exchanges between the organization and its employees to achieve successful external exchanges between the organization and its customers.

Generally speaking, internal marketing refers to the managerial actions necessary to make all members of the organization understand and accept their respective roles in implementing the marketing strategy. Thus, marketing managers need to focus internally on employees as well as externally on customers. This means that all internal customers, from the president of the company down to the hourly workers on the shop floor, must understand the roles they play in carrying out their jobs and implementing the marketing strategy. At Starbucks, all employees receive training and support—including health-care benefits—that foster an organizational culture founded on product quality and environmental concern. In short, anyone invested in the company, both marketers and those who perform other functions that are a part of the company's value chain, must recognize the tenet of customer orientation and service that underlies the marketing concept. Being market oriented as a company is not a marketing responsibility; it is a companywide activity that engages all employees (marketing and nonmarketing).

Like external marketing activities, internal marketing may involve all the elements of the marketing mix: product, price, promotion, and distribution. For instance, an organization may sponsor sales contests to inspire sales personnel to boost their selling efforts. Such efforts help employees (and ultimately the company) understand customers' needs and problems, foster communication between employees and management, teach valuable new skills, and heighten the employees' enthusiasm for their jobs. In addition, many companies use planning sessions, websites, e-mail, workshops, letters, formal reports, and personal conversations to ensure that employees comprehend the corporate mission, the organization's goals, and the marketing strategy. The ultimate results are more satisfied employees and improved customer relations.

Delivering on Quality

Quality is a major concern in most organizations, particularly in light of intense foreign competition, more demanding customers, and poorer profit performance owing to reduced market share and higher costs. To regain a competitive edge, a number of companies have adopted a total quality management approach that follows standards established by the ISO (International Organization for Standardization).

Total quality management (TQM) is a philosophy that uniform commitment to quality in all areas of the organization will promote a culture that meets customers' perceptions of quality. Indeed, research has shown that quality orientation and market orientation are complementary and together are sources of superior performance.²⁹ TQM involves coordinating efforts to improve customer satisfaction, increasing employee participation, forming and strengthening supplier partnerships, and facilitating an organizational culture of continuous quality improvement. It requires constant improvements in all areas of the company as well as employee empowerment.



Entrepreneurship in Marketing

Bonobos Benefits by Empowering Employees

Although Andy Dunn and Brian Spaly named their e-business Bonobos, they do not monkey around when it comes to internal marketing. Bonobos is a fast-growing young company that manufactures and sells men's clothing. Its continued success depends on the ability of its employees to make the most of every opportunity, solve problems quickly, and turn first-time buyers into loyal repeat customers through outstanding service.

The entrepreneurs' goal, says Dunn, is to create "an environment where people can come alive every day" and be empowered to deliver the best possible service. By encouraging employees to make on-the-spot decisions, Bonobos can offer the exceptional service that sets it apart from competitors.

Successful internal marketing has helped Bonobos implement marketing plans to attract 32,000 customers and build annual revenues to \$15 million. Looking ahead, the company is relying on its tradition of service excellence to keep sales and profits growing year after year.^d

total quality management (TQM)

A philosophy that uniform commitment to quality in all areas of the organization will promote a culture that meets customers' perceptions of quality



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Total Quality Management

In the hotel industry, Ritz-Carlton is well known for its total quality management program, which has a reputation of high-quality customer service.

Continuous improvement of an organization's goods and services is built around the notion that quality is free; in contrast, *not* having high-quality goods and services can be very expensive, especially in terms of dissatisfied customers.³⁰ A primary tool of the continuous improvement process is **benchmarking**, comparing the quality of the organization's goods, services, or processes with that of the best-performing companies in the industry.³¹ Benchmarking fosters organizational "learning" by helping companies identify and enhance valuable marketing capabilities.³² Benchmarking lets the organization assess where it stands competitively in its industry, thus giving it a goal to aim for over time. Many companies adhere to the quality standards developed by the International Organization for Standardization. ISO has developed about 18,000 quality standards across all industries since 1947.

Ultimately, the success or failure of a quality program is due to the efforts of the organization's employees. Thus, employee recruitment, selection, and training are critical to the success of marketing implementation. **Empowerment** gives customer-contact employees the authority and responsibility to make marketing decisions without seeking the approval of their supervisors.³³ Although employees at any level in an organization can be empowered to make decisions, empowerment is used most often at the frontline, where employees interact daily with customers.

One characteristic of empowerment is that employees can perform their jobs the way they see fit, as long as their methods and outcomes are consistent with the organization's mission. However, empowering employees is successful only if the organization is guided by an overall corporate vision, shared goals, and a culture that supports the quality effort. For instance, Ritz-Carlton hotels give each customer-contact employee permission to take care of customer needs as he or she observes issues. A great deal of time, effort, and patience is needed to develop and sustain a quality-oriented culture in an organization.

ORGANIZING MARKETING ACTIVITIES

The structure and relationships of a marketing unit, including lines of authority and responsibility that connect and coordinate individuals, strongly affect marketing activities. Companies that truly adopt the marketing concept develop a distinct organizational culture: a culture based on a shared set of beliefs that makes the customer's needs the pivotal point of the company's decisions about strategy and operations.³⁴ Instead of developing products in a proverbial vacuum and then trying to persuade customers to purchase those products, companies that use the marketing concept begin with an orientation toward their customers' needs and desires. Recreational Equipment Inc. (REI), for example, gives customers a chance to try out sporting goods in conditions that approximate how the products will actually be used. Customers can try out hiking boots on a simulated hiking path with a variety of trail surfaces and inclines or test climbing gear on an indoor climbing wall. In addition, REI offers clinics to customers, such as "Rock Climbing Basics," "Basic Backpacking," and "REI's Outdoor School."

If the marketing concept serves as a guiding philosophy, the marketing unit will be closely coordinated with other functional areas such as production, finance, and human resources. Marketing must interact with other departments in a number of key areas. It needs to work

benchmarking

Comparing the quality of the company's goods, services, or processes with that of its best-performing competitors

empowerment

Giving customer-contact employees authority and responsibility to make marketing decisions without seeking approval of their supervisors

with manufacturing in determining the volume and variety of the company's products. Those in charge of production rely on marketers for accurate sales forecasts. Research and development departments depend heavily on information gathered by marketers regarding the product features and benefits that consumers desire. Decisions made by the physical distribution department hinge on information about the urgency of delivery schedules and cost/service trade-offs.

How effectively a company's marketing management can plan and implement marketing strategies also depends on how the marketing unit is organized. Organizing marketing activities in ways that mesh with a company's strategic marketing approach enhances performance.³⁵ Effective organizational planning can give the company a competitive advantage. The organizational structure of a marketing department establishes the authority relationships among marketing personnel and specifies who is responsible for making certain decisions and performing particular activities. This internal structure helps direct marketing activities.

One crucial decision regarding structural authority is centralization versus decentralization. In a **centralized organization**, top-level managers delegate little authority to lower levels. In a **decentralized organization**, decision-making authority is delegated as far down the chain of command as possible. The decision to centralize or decentralize the organization directly affects marketing. Most traditional organizations are highly centralized. In these organizations, most, if not all, marketing decisions are made at the top levels. However, as organizations become more marketing oriented, centralized decision making proves somewhat ineffective. In these organizations, decentralized authority allows the company to respond to customer needs more quickly.

No single approach to organizing a marketing unit works equally well in all businesses. The best approach or approaches depend on the number and diversity of the company's products, the characteristics and needs of the people in the target market, and many other factors. A marketing unit can be organized according to (1) functions, (2) products, (3) regions, or (4) types of customers. Companies often use some combination of these organizational approaches. Product features may dictate that the marketing unit be structured by products, whereas customer characteristics may require that it be organized by geographic region or by types of customers. By using more than one type of structure, a flexible marketing unit can develop and implement marketing plans to match customers' needs precisely.

Organizing by Functions

Some marketing departments are organized by general marketing functions, such as marketing research, product development, distribution, sales, advertising, and customer relations. The personnel who direct these functions report directly to the top-level marketing executive. This structure is fairly common because it works well for some businesses with centralized marketing operations, such as Ford and General Motors. In more decentralized companies, such as grocery store chains, functional organization can cause serious coordination problems. However, the functional approach may suit a large, centralized company whose products and customers are neither numerous nor diverse.

Organizing by Products

An organization that produces and markets diverse products may find the functional approach inadequate. The decisions and problems related to a single marketing function for one product may be quite different from those related to the same marketing function for another product. As a result, businesses that produce diverse products sometimes organize their marketing units according to product groups. Organizing by product groups gives a company the flexibility to develop special marketing mixes for different products. Procter & Gamble,

centralized organization

A structure in which top-level managers delegate little authority to lower levels

decentralized organization

A structure in which decision-making authority is delegated as far down the chain of command as possible

like many companies in the consumer packaged goods industry, is organized by product group. Although organizing by products allows a company to remain flexible, this approach can be rather expensive unless efficient categories of products are grouped together to reduce duplication and improve coordination of product management.

Organizing by Regions

A large company that markets products nationally (or internationally) may organize its marketing activities by geographic regions. Managers of marketing functions for each region report to their regional marketing manager; all the regional marketing managers report directly to the executive marketing manager. Frito-Lay, for example, is organized into four regional divisions, allowing the company to get closer to its customers and respond more quickly and efficiently to regional competitors. This form of organization is especially effective for a company whose customers' characteristics and needs vary greatly from one region to another. Companies that try to penetrate the national market intensively may divide regions into sub-regions.

Organizing by Types of Customers

Sometimes a company's marketing unit is organized according to types of customers. This form of internal organization works well for a company that has several groups of customers whose needs and problems differ significantly. For example, Home Depot targets home builders and contractors as well as do-it-yourself customers and consumers who desire installation and service. Retailers may want more rapid delivery of small shipments and more

personal selling by the producer than do either wholesalers or institutional buyers. Because the marketing decisions and activities required for these two groups of customers differ considerably, the company may find it efficient to organize its marketing unit by types of customers.

CONTROLLING MARKETING ACTIVITIES

To achieve both marketing and general organizational objectives, marketing managers must effectively control marketing efforts. The **marketing control process** consists of establishing performance standards, evaluating actual performance by comparing it with established standards, and reducing the differences between desired and actual performance by taking corrective actions.

Although the control function is a fundamental management activity, it has received little attention in marketing. Organizations have both formal and informal control systems. The formal marketing control process, as mentioned earlier, involves performance standards, evaluation of actual performance, and corrective action to remedy shortfalls (see Figure 2.6). The informal control process involves self-control, social or group control, and cultural control through acceptance of the company's value system. Which type of control system dominates depends on the environmental context of the company.³⁶ We now discuss these steps in the formal control process and consider the major problems they involve.

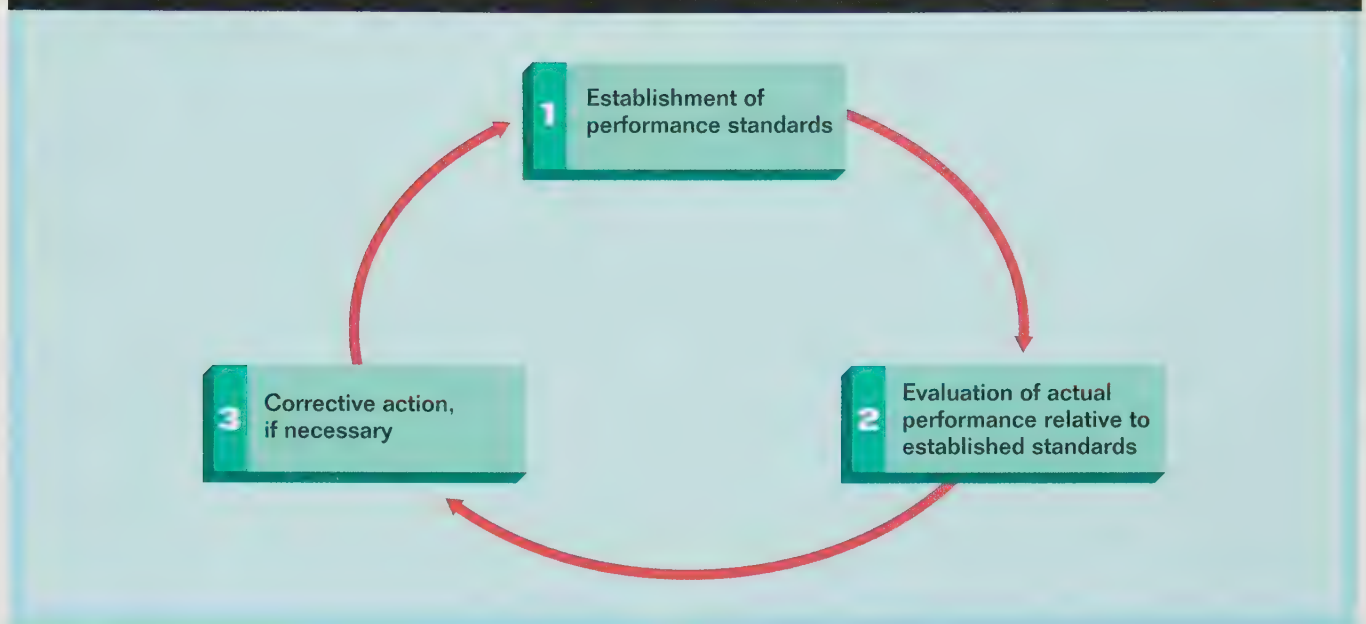
marketing control process

Establishing performance standards, evaluating actual performance by comparing it with established standards, and reducing the differences between desired and actual performance



Organizing by Types of Customers

Garmin organizes its marketing activities based on types of customers. The company serves several industries, including automotive, marine, aviation, and outdoor recreation.

FIGURE 2.6 The Marketing Control Process

Establishing Performance Standards

Planning and controlling are closely linked because plans include statements about what is to be accomplished. For purposes of control, these statements function as performance standards. A **performance standard** is an expected level of performance against which actual performance can be compared. A performance standard might be a 20 percent reduction in customer complaints, a monthly sales quota of \$150,000, or a 10 percent increase per month in new-customer accounts.

Evaluating Actual Performance

To compare actual performance with performance standards, marketing managers must know what employees within the company are doing and have information about the activities of external organizations that provide the company with marketing assistance. Such is the case with Cadillac, which, like many automakers, uses many measures to evaluate its product and service levels, including how well it ranks on the J. D. Power & Associates Customer Service Index. In 2010, Cadillac ranked number one in initial quality for the Large Premium Crossover/SUV segment.³⁷ Records of actual performance are compared with performance standards to determine whether and how much of a discrepancy exists. For example, if GM determines that only 6.5 million vehicles were sold in 2010, a discrepancy would have existed if its goal was 6.75 million vehicles.

Taking Corrective Actions

Marketing managers have several options for reducing a discrepancy between established performance standards and actual performance. They can take steps to improve actual performance, reduce or totally change the performance standard, or do both. For example, facing intense competition and tight profit margins, HDTV makers have begun to add new features—such as LED backlighting, screen refresh (to prevent motion blur in sporting events), proprietary color-processing technology, and easier connections—to engage customers. To improve actual performance, the marketing manager may have to use better

performance standard

An expected level of performance against which actual performance can be compared

methods of motivating marketing personnel or find more effective techniques for coordinating marketing efforts.

Controlling Marketing Activities

In their efforts to control marketing activities, marketing managers frequently run into several problems. Often, the information required to control marketing activities is unavailable or is available only at a high cost. Although marketing controls should be flexible enough to allow for environmental changes, the frequency, intensity, and unpredictability of such changes may hamper control. In addition, the time lag between marketing activities and their results limits a marketing manager's ability to measure the effectiveness of specific marketing activities. This is especially true for all advertising activities.

Because marketing and other business activities overlap, marketing managers cannot determine the precise costs of marketing activities. Without an accurate measure of marketing costs, it is difficult to know if the outcome of marketing activities is worth the expense. Finally, marketing control may be difficult because it is very hard to develop exact performance standards for marketing personnel.

CHAPTER REVIEW

1 Describe the strategic planning process.

Through the process of strategic planning, a company identifies or establishes an organizational mission and goals, corporate strategy, marketing goals and objectives, marketing strategy, and a marketing plan. To achieve its marketing objectives, an organization must develop a marketing strategy, which includes identifying a target market and developing a plan of action for developing, distributing, promoting, and pricing products that meet the needs of customers in that target market. The strategic planning process ultimately yields the framework for a marketing plan, a written document that specifies the activities to be performed for implementing and controlling an organization's marketing activities.

2 Explain how organizational resources and opportunities affect the planning process.

The marketing environment, including economic, competitive, political, legal and regulatory, socio-cultural, and technological forces, can affect the resources a company can acquire and use to create favorable opportunities. Resources may include core competencies, which are things that a com-

pany does extremely well, sometimes so well that it gives the company an advantage over its competition. When the right combination of circumstances and timing permits an organization to take action toward reaching a particular target market, a market opportunity exists. Strategic windows are temporary periods of optimal fit between the key requirements of a market and the particular capabilities of a company competing in that market. When a company matches a core competency to opportunities it has discovered in the marketplace, it is said to have a competitive advantage.

3 Understand the role of the mission statement in strategic planning.

An organization's goals should be derived from its mission statement—a long-term view, or vision, of what the organization wants to become. A well-formulated mission statement helps give an organization a clear purpose and direction, distinguish it from competitors, provide direction for strategic planning, and foster a focus on customers. An organization's goals and objectives, which focus on the end results sought, guide the remainder of its planning efforts.

4 Examine corporate, business-unit, and marketing strategies.

Corporate strategy determines the means for utilizing resources in the areas of production, finance, research and development, human resources, and marketing to reach the organization's goals. Business-unit strategy focuses on strategic business units (SBUs)—divisions, product lines, or other profit centers within the parent company used to define areas for consideration in a specific strategic market plan. The Boston Consulting Group's market growth/market share matrix integrates a company's products or SBUs into a single, overall matrix for evaluation to determine appropriate strategies for individual products and business units. Marketing strategies, the most detailed and specific of the three levels of strategy, are composed of two elements: the selection of a target market and the creation of a marketing mix that will satisfy the needs of the chosen target market. The selection of a target market serves as the basis for the creation of the marketing mix to satisfy the needs of that market. Marketing mix decisions should also be consistent with business-unit and corporate strategies and be flexible enough to respond to changes in market conditions, competition, and customer needs. Different elements of the marketing mix can be changed to accommodate different marketing strategies.

5 Understand the process of creating the marketing plan.

A key component of marketing planning is the development of a marketing plan, which outlines all the activities necessary to implement marketing strategies. The plan fosters communication among employees, assigns responsibilities and schedules, specifies how resources are to be allocated to achieve objectives, and helps marketing managers monitor and evaluate the performance of a marketing strategy.

6 Describe the marketing implementation process and the major approaches to marketing implementation.

Marketing implementation is the process of executing marketing strategies. Marketing strategies do not always turn out as expected. Realized

marketing strategies often differ from the intended strategies because of issues related to implementation. Proper implementation requires efficient organizational structures and effective control and evaluation.

One major approach to marketing implementation is customer relationship management (CRM), which focuses on using information about customers to create marketing strategies that develop and sustain desirable long-term customer relationships. CRM employs database marketing techniques to identify different types of customers and develop specific strategies for interacting with each customer. Another approach is internal marketing, a management philosophy that coordinates internal exchanges between the organization and its employees to achieve successful external exchanges between the organization and its customers. For strategy implementation to be successful, the needs of both internal and external customers must be met.

The organization of marketing activities involves the development of an internal structure for the marketing unit. In a centralized organization, top-level managers delegate very little authority to lower levels, whereas in decentralized organizations, decision-making authority is delegated as far down the chain of command as possible. The marketing unit can be organized by functions, products, regions, or types of customers, or some combination of those elements.

The marketing control process consists of establishing performance standards, evaluating actual performance by comparing it with established standards, and reducing the discrepancy between desired and actual performance. When actual performance is compared with performance standards, marketers must determine whether a discrepancy exists and, if so, whether it requires corrective action, such as changing the performance standard or improving actual performance. Problems encountered in controlling marketing activities include lack of information, environmental changes, time lags between marketing activities and their effects, and difficulty in determining the costs of marketing activities.

ONLINE RESOURCES

Please visit the student website at www.mcgraw-hill.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

strategic planning	28	strategic business unit (SBU)	35	external customers	44
marketing strategy	29	market	36	internal customers	44
marketing plan	29	market share	36	internal marketing	44
core competencies	30	market growth/market share matrix	37	total quality management (TQM)	45
market opportunity	30	sustainable competitive advantage	41	benchmarking	46
strategic windows	30	marketing planning	41	empowerment	46
competitive advantage	30	marketing implementation	42	centralized organization	47
SWOT analysis	31	intended strategy	43	decentralized organization	47
mission statement	32	realized strategy	43	marketing control process	48
marketing objective	33			performance standard	49
corporate strategy	34				

ISSUES FOR DISCUSSION AND REVIEW

1. Identify the major components of strategic planning, and explain how they are interrelated.
2. What are the two major parts of a marketing strategy?
3. What are some issues to consider in analyzing a company's resources and opportunities? How do these issues affect marketing objectives and marketing strategy?
4. How important is the SWOT analysis to the marketing planning process?
5. How should organizations set marketing objectives?
6. Explain how an organization can create a competitive advantage at the corporate, business-unit, and marketing strategy levels.
7. How can an organization make its competitive advantages sustainable over time? How difficult is it to create sustainable competitive advantages?
8. What benefits do marketing managers gain from planning? Is planning necessary for long-run survival? Why or why not?
9. Why does an organization's intended strategy often differ from its realized strategy?
10. Why might an organization use multiple bases for organizing its marketing unit?
11. What are the major steps of the marketing control process?

MARKETING APPLICATIONS

1. Contact three companies that appear to be successful. Ask one of the company's managers if he or she would share with you the company's mission statement or organizational goals. For many companies, the mission statement and organizational goals can also be found on the company's webpage. Obtain as much information as possible about the mission statement and organizational goals. Discuss how the statement matches the criteria outlined in the text.
2. Assume you own a new, family-style restaurant that will open for business in the coming year. Formulate a long-term goal for the restaurant, and then develop short-term goals to help you achieve the long-term goal.
3. Amazon.com identified an opportunity to capitalize on a desire of many consumers to shop at home. This strategic window gave Amazon.com a very competitive position in a new market. Consider the opportunities that may be present in your city or your region. Identify a strategic window, and discuss how a company could take advantage of this opportunity. What types of core competencies are necessary?
4. Marketing units may be organized according to functions, products, regions, or types of customers. Describe how you would organize the marketing units for the following.
 - a. A toothpaste with whitener; a toothpaste with sensitivity protection; a toothpaste with cinnamon flavor

- b. A national line offering all types of winter and summer sports clothing for men and women
- c. A life insurance company that provides life, health, and disability insurance

ONLINE EXERCISE

5. Internet analysts have praised Sony's website as one of the best organized and most informative on the Internet. See why by accessing www.sony.com.
 - a. Based on the information provided on the website, describe Sony's SBUs. Does Sony have SBUs that are divisions, product lines, or some other profit center structure within the parent company Sony?
 - b. Based on your existing knowledge of Sony as an innovative leader in the consumer electronics industry, describe the company's primary competitive advantage (i.e., what makes Sony strategically unique?). How does Sony's website support this competitive advantage?
 - c. Assess the quality and effectiveness of Sony's website. Specifically, perform a preliminary SWOT analysis comparing Sony's website with other high-quality websites you have visited.

DEVELOPING YOUR MARKETING PLAN

One of the foundations of a successful marketing strategy is a thorough analysis of your company. To make the best decisions about what products to offer, which markets to target, and how to reach those targets, you must recognize your company's strengths and weaknesses. The information collected in this analysis should be referenced when making many of the decisions in your marketing plan. While writing the beginning of your plan, the information in this chapter can help you with the following issues:

1. Can you identify the core competencies of your company? Do they currently contribute to a competitive advantage? If not, what changes could your company make to establish a competitive advantage?

2. Conduct a SWOT analysis of your company to identify its strengths and weaknesses. Continue your analysis to include the business environment, discovering any opportunities that exist or threats that may affect your company.
3. Using the information from your SWOT analysis, have you identified any opportunities that are a good match with your company's core competencies? Likewise, have you discovered any weaknesses that could be converted to strengths through careful marketing planning?

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

WHITE ROCK USES MARKETING STRATEGIES TO REVITALIZE COMPANY

Larry Bodkin had a tough road ahead of him when he became president of White Rock Beverages. Founded in the late 1800s, White Rock's sparkling water reached its heyday in the early 20th century as the water of the upper class. However, by the end of the century, White Rock was struggling to survive. Growth had stagnated, and new strategies were needed to keep the White Rock brand alive.

White Rock used a combination of different marketing strategies to revitalize the company. For years it utilized a hybrid distribution system to sell directly to distributors in some markets and to retailers in other markets. In the process, White Rock uses customer service as a differentiator between its beverages and its competitors. White Rock customers feel like the company is responsive to their needs, with many becoming loyal to the White Rock brand.

Another way in which White Rock differentiates itself from companies like Coca-Cola and Pepsi is by its branding strategy. The company recognizes that one of its key strengths is as a premium brand for a niche market segment. White Rock targets the health-food segment by marketing itself as a unique, healthy brand. It also capitalizes on its history as one of the oldest sparkling beverage companies in America. This brand appeal has become so important that White Rock challenged Coca-Cola after Coke claimed that it created today's modern image of Santa Claus. Bodkin demanded an apology from Coca-Cola when it was revealed that White Rock had been using the modern Santa Claus ad two decades prior to Coca-Cola's Santa ads. By developing a strong, authentic brand image, White Rock is attempting to reassert its brand into the minds of consumers.

White Rock's efforts have been successful in stimulating growth. The company grew 10 percent in a recent year. However, since White Rock recognizes that its brand has matured (meaning that growth will likely be minimal), the company is adapting its strategy by introducing White Rock in new containers and sizes. For instance, it developed the White Rock Punch 'n' Fruity juice boxes, which are meant to appeal to on-the-go consumers and parents. Additionally, White Rock is breaking into the organic industry with its line of White Rock organics, made with cane sugar and natural fruit extracts.

White Rock is also pursuing an acquisition strategy of other brands. In addition to the White Rock brand, the company owns the Sioux City and Olde Brooklyn brands. Both brand names appeal to a bygone era. White Rock credits its nationally distributed Sioux City brand as one of the first brands of soft drinks to carry a Western theme. Olde Brooklyn's flavors are named after Brooklyn neighborhoods that imbue the brand with a sense of authenticity. Olde Brooklyn also lacks preservatives, which appeals more to the health food market. By using brands such as Olde Brooklyn to gain entry into health-food stores like Trader Joe's, White Rock hopes to expand its market of distribution and secure more growth for the company.³⁸

QUESTIONS FOR DISCUSSION

1. What do you think White Rock's core competency is to reach a particular target market or market opportunity?
2. What do you think White Rock should do to gain competitive advantage?
3. What elements of the marketing mix could White Rock change to improve its marketing strategy?

CHAPTER 3

The Marketing Environment, Social Responsibility, and Ethics



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MARKETING INSIGHTS

The Economic Benefits of Buying Local

Like going green, buying local has become a popular trend. The belief that buying local saves jobs, coupled with crises associated with harmful meat and lead-tainted toys, have garnered additional support for locally owned businesses. Companies like Whole Foods promote local products to support sustainability and a green marketing theme. However, buying local can be expensive and challenging, particularly as the world becomes increasingly globalized. Critics also argue that altering purchasing patterns may remove money and jobs elsewhere.

On the other hand, there are definite benefits to buying local. For example, local retailers are more likely to do business with other local businesses and use local services, keeping money in the community. According to the research firms Institute for Local Self-Reliance and Civic Economics, the local economy retains \$45 of each \$100 spent locally, while big-box chains retain only \$13 of each \$100 spent. Money spent at a national chain returns to a centralized location, and its dispersion is challenging to track.

For those who do not want to completely change their purchasing patterns, buy local groups like We Are Athens and Local First are suggesting that consumers simply replace a percentage of their chain store purchases with local ones. Such methods seem to be successful, as many local stores who partner with these organizations have noticed an uptick in sales. Promoting local products can be good for marketing and can have a positive impact on the local economy.¹

OBJECTIVES :

- 1 Recognize the importance of environmental scanning and analysis.
- 2 Explore the effects of competitive, economic, political, legal and regulatory, technological, and sociocultural factors on marketing strategies.
- 3 Understand the concept and dimensions of social responsibility.
- 4 Differentiate between ethics and social responsibility.

To succeed in today's highly competitive marketplace, companies must respond to changes in the marketing environment, particularly changes in customer and public desires and competitors' actions. Increasingly, success also requires that marketers act responsibly and ethically. Because recognizing and responding to such changes in the marketing environment are crucial to marketing success, this chapter explores in some detail the forces that contribute to these changes.

The first half of this chapter explores the competitive, economic, political, legal and regulatory, technological, and sociocultural forces that make up the marketing environment. This discussion addresses the importance of scanning and analyzing the marketing environment, as well as how each of these forces influences marketing strategy decisions. The second half of the chapter considers the role of social responsibility and ethics. These increasingly important forces raise several issues that pose threats and opportunities to marketers, such as the natural environment and consumerism.

The Marketing Environment

The marketing environment consists of external forces that directly or indirectly influence an organization's acquisition of inputs (human, financial, natural resources and raw materials, and information) and creation of outputs (goods, services, or ideas). As indicated in Chapter 1, the marketing environment includes six such forces: competitive, economic, political, legal and regulatory, technological, and sociocultural.

Whether fluctuating rapidly or slowly, environmental forces are always dynamic. Changes in the marketing environment create uncertainty, threats, and opportunities for marketers. Consider how dramatic changes in oil prices can change consumer purchasing behavior. Over the past five years, oil prices have ranged between \$35 a barrel to \$147 a barrel. These fluctuations have had dramatic effects on many aspects of the economy that are dependent upon this energy source. Marketing managers who fail to recognize changes in environmental forces leave their firms unprepared to capitalize on marketing opportunities or to cope with threats created by changes in the environment. Monitoring the environment therefore is crucial to an organization's survival and to the long-term achievement of its goals.

To monitor changes in the marketing environment effectively, marketers engage in environmental scanning and analysis. **Environmental scanning** is the process of collecting information about forces in the marketing environment. Scanning involves observation; secondary sources such as business, trade, government, and Internet sources; and marketing research. The Internet has become a popular scanning tool because it makes data more accessible and allows companies to gather needed information quickly.

Environmental analysis is the process of assessing and interpreting the information gathered through environmental scanning. A manager evaluates the information for accuracy; tries to resolve inconsistencies in the data; and, if warranted, assigns significance to the findings. By evaluating this information, the manager should be able to identify potential threats and opportunities linked to environmental changes. A threat could be rising interest rates or commodity prices. An opportunity could be increases in consumer income, decreases in the unemployment rate, or adoption of new technology related to the Internet.

Understanding the current state of the marketing environment and recognizing threats and opportunities arising from changes within it help companies with strategic planning. In particular, they can help marketing managers assess the performance of current marketing efforts and develop future marketing strategies.

environmental scanning

The process of collecting information about forces in the marketing environment

environmental analysis

The process of assessing and interpreting the information gathered through environmental scanning

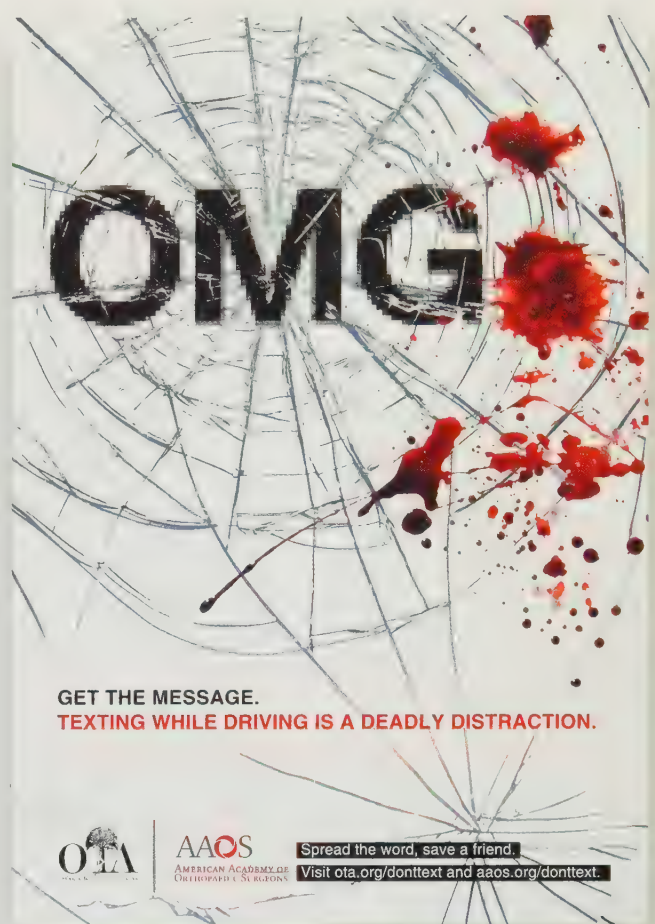
RESPONDING TO THE MARKETING ENVIRONMENT

Marketing managers take two general approaches to environmental forces: accepting them as uncontrollable or attempting to influence and shape them.² An organization that views environmental forces as uncontrollable remains *passive* and *reactive* toward the environment. Instead of trying to influence forces in the environment, its marketing managers adjust current marketing strategies to environmental changes. They approach with caution market opportunities discovered through environmental scanning and analysis. On the other hand, marketing managers who believe that environmental forces can be shaped adopt a more *proactive* approach. For example, if a market is blocked by traditional environmental constraints, proactive marketing managers may apply economic, psychological, political, and promotional skills to gain access to and operate within it. Once they identify what is blocking a market opportunity, they assess the power of the various parties involved and develop strategies to overcome the obstructing environmental forces. Microsoft, Intel, and Google, for example, have responded to political, legal, and regulatory concerns about their power in the computer industry by communicating the value of their competitive approaches to various publics. The computer giants contend that their competitive success results in superior products for their customers.

A proactive approach can be constructive and bring desired results. To exert influence on environmental forces, marketing managers seek to identify market opportunities or to extract greater benefits relative to costs from existing market opportunities. Political action is another way to affect environmental forces. The pharmaceutical industry, for example, has lobbied very effectively for fewer restrictions on prescription drug marketing. However, managers must recognize that there are limits on how much environmental forces can be shaped. Microsoft, for example, can take a proactive approach because of its financial resources and the highly visible image of its founder, Bill Gates. However, Microsoft has also been the target of various lawsuits regarding anticompetitive practices, demonstrating that even Microsoft is limited in how far it can influence the business environment. Additionally, although an organization may be able to influence legislation through lobbying, it is unlikely that a single organization can significantly increase the national birthrate or move the economy from recession to prosperity.

COMPETITIVE FORCES

Few firms, if any, operate free of competition. In fact, for most products, customers have many alternatives from which to choose. For example, while the five best-selling soft drinks in the United States are Coke Classic, Pepsi-Cola, Diet Coke, Mountain Dew, and Diet Pepsi, soft-drink sales in general have flattened as consumers have turned to alternatives such as bottled water, flavored water, fruit juice, and iced tea products.³ Thus, when



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Responding to the Marketing Environment

By attempting to shape public opinion, the sponsors of this advertisement may indirectly encourage lawmakers to enact laws that prohibit texting while driving.

Product Competition

Coke and Pepsi compete head-to-head in the soft-drink market.



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competition

Other firms that market products that are similar to or can be substituted for a firm's products in the same geographic area

brand competitors

Firms that market products with similar features and benefits to the same customers at similar prices

product competitors

Firms that compete in the same product class but market products with different features, benefits, and prices

generic competitors

Firms that provide very different products that solve the same problem or satisfy the same basic customer need

total budget competitors

Firms that compete for the limited financial resources of the same customers

marketing managers define the target market(s) their firm will serve, they simultaneously establish a set of competitors.⁴ The number of firms that supply a product may affect the strength of competitors. When just one or a few firms control supply, competitive factors exert a different sort of influence on marketing activities than when many competitors exist.

Broadly speaking, all firms compete with one another for customers' dollars. More practically, however, a marketer generally defines **competition** as other firms that market products that are similar to or can be substituted for its products in the same geographic area. These competitors can be classified into one of four types. **Brand competitors** market products with similar features and benefits to the same customers at similar prices. For example, a thirsty, calorie-conscious customer may choose a diet soda such as Diet Coke or Diet Pepsi from the soda machine. However, these sodas face competition from other types of beverages. **Product competitors** compete in the same product class but market products with different features, benefits, and prices. The thirsty dieter, for instance, might purchase iced tea, juice, a sports beverage, or bottled water instead of a soda. **Generic competitors** provide very different products that solve the same problem or satisfy the same basic customer need. Our dieter, for example, might simply have a glass of water from the kitchen tap to satisfy his or her thirst. **Total budget competitors** compete for the limited financial resources of the same customers.⁵ Total budget competitors for Diet Coke, for example, might include gum, a newspaper, and bananas. Although all four types of competition can affect a firm's marketing performance, brand competitors are the most significant because buyers typically see the different products of these firms as direct substitutes for one another. Consequently, marketers tend to concentrate environmental analyses on brand competitors.

When just one or a few firms control supply, competitive factors exert a different form of influence on marketing activities than when many competitors exist. Table 3.1 presents four general types of competitive structures: monopoly, oligopoly, monopolistic competition, and

pure competition. A **monopoly** exists when an organization offers a product that has no close substitutes, making that organization the sole source of supply. Because the organization has no competitors, it controls supply of the product completely and, as a single seller, can erect barriers to potential competitors. In reality, most monopolies surviving today are local utilities, which are heavily regulated by local, state, or federal agencies. An **oligopoly** exists when a few sellers control the supply of a large proportion of a product. In this case, each seller considers the reactions of other sellers to changes in marketing activities. Products facing oligopolistic competition may be homogeneous, such as aluminum, or differentiated, such as package delivery services. **Monopolistic competition** exists when a firm with many potential competitors attempts to develop a marketing strategy to differentiate its product. For example, Levi Strauss and Wrangler have established an advantage for their blue jeans through well-known trademarks, design, advertising, and a reputation for quality. Wrangler is associated with a cowboy image, while Levi's Dockers tries to maintain a business casual image. Although many competing brands of blue jeans are available, these firms have carved out market niches by emphasizing differences in their products, especially style and image. **Pure competition**, if it existed at all, would entail a large number of sellers, none of which could significantly influence price or supply. The closest thing to an example of pure competition is an unregulated farmers' market, where local growers gather to sell their produce. Pure competition is an ideal at one end of the continuum; monopoly is at the other end. Most marketers function in a competitive environment somewhere between these two extremes.

Marketers need to monitor the actions of major competitors to determine what specific strategies competitors are using and how those strategies affect their own. Price is one of the marketing strategy variables that most competitors monitor. When Frontier or Southwest Airlines lowers the fare on a route, most major airlines attempt to match the price. Monitoring guides marketers in developing competitive advantages and aids them in adjusting current marketing strategies and planning new ones.

In monitoring competition, it is not enough to analyze available information; the firm must develop a system for gathering ongoing information about competitors. Understanding the market and what customers want, as well as what the competition is providing, will assist in maintaining a market orientation.⁶ Information about competitors allows marketing managers to assess the performance of their own marketing efforts and to recognize the strengths and weaknesses in their own marketing strategies. Data about market shares, product movement, sales volume, and expenditure levels can be useful. However, accurate information on these matters is often difficult to obtain. We explore how marketers collect and organize such data in Chapter 4.

monopoly

A competitive structure in which an organization offers a product that has no close substitutes, making that organization the sole source of supply

oligopoly

A competitive structure in which a few sellers control the supply of a large proportion of a product

monopolistic competition

A competitive structure in which a firm has many potential competitors and tries to develop a marketing strategy to differentiate its product

pure competition

A market structure characterized by an extremely large number of sellers, none strong enough to significantly influence price or supply

TABLE 3.1 Selected Characteristics of Competitive Structures

Type of Structure	Number of Competitors	Ease of Entry into Market	Product	Example
Monopoly	One	Many barriers	Almost no substitutes	Water utilities
Oligopoly	Few	Some barriers	Homogeneous or differentiated (with real or perceived differences)	UPS, FedEx, Postal Service (package delivery)
Monopolistic competition	Many	Few barriers	Product differentiation, with many substitutes	Wrangler, Levi Strauss (jeans)
Pure competition	Unlimited	No barriers	Homogeneous products	Vegetable farm (sweet corn)



© Volvo Cars of North America, LLC

ECONOMIC FORCES

Economic forces in the marketing environment influence both marketers' and customers' decisions and activities. In this section, we examine the effects of buying power and willingness to spend, as well as general economic conditions.

Buying Power and Willingness to Spend

The strength of a person's **buying power** depends on economic conditions and the size of the resources—money, goods, and services that can be traded in an exchange—that enable the individual to make purchases. The major financial sources of buying power are income, credit, and wealth.

For an individual, *income* is the amount of money received through wages, rents, investments, pensions, and subsidy payments for a given period, such as a month or a year. Normally, this money is allocated among taxes, spending for goods and services, and savings. Marketers are most interested in the amount of money left after payment of taxes because this **disposable income** is used for spending or saving. Because disposable income is a ready source of buying power, the total amount available in a nation is important to marketers. Several factors determine the size of total disposable income, including the total amount of income—which is affected by wage levels, the rate of unemployment, interest rates, and dividend rates—and the number and amount of taxes. Disposable income that

is available for spending and saving after an individual has purchased the basic necessities of food, clothing, and shelter is called **discretionary income**. People use discretionary income to purchase entertainment, vacations, automobiles, education, pets, furniture, appliances, and so on. Changes in total discretionary income affect sales of these products, especially automobiles, furniture, large appliances, and other costly durable goods.

Credit is also important because it enables people to spend future income now or in the near future. However, credit increases current buying power at the expense of future buying power. Several factors determine whether people acquire, use, or forgo credit. After the last recession, credit for homes has been more difficult for consumers due to the number of consumers who defaulted on their loans. Banks have tightened the requirements for loans. Interest rates affect buyers' decisions to use credit, especially for expensive purchases such as homes, appliances, and automobiles. When interest rates are low, the total cost of automobiles and houses becomes more affordable. In contrast, when interest rates are high, consumers are more likely to delay buying such expensive items. Use of credit is also affected by credit terms, such as size of the down payment and amount and number of monthly payments.

Wealth is the accumulation of past income, natural resources, and financial resources. It exists in many forms, including cash, securities, savings accounts, jewelry, and real estate. The significance of wealth to marketers is that as people become wealthier, they gain buying power in three ways: they can use their wealth to make current purchases, to generate income, and to acquire large amounts of credit.

People's **willingness to spend**—their inclination to buy because of expected satisfaction from a product—is related, to some degree, to their ability to buy. That is, people

Types of Competitive Structures

The auto industry is an example of an oligopoly.

buying power

Resources, such as money, goods, and services, that can be traded in an exchange

disposable income

After-tax income

discretionary income

Disposable income available for spending and saving after an individual has purchased the basic necessities of food, clothing, and shelter

willingness to spend

An inclination to buy because of expected satisfaction from a product, influenced by the ability to buy and numerous psychological and social forces

are sometimes more willing to buy if they have the buying power. However, several other elements also influence willingness to spend. Some elements affect specific products; others influence spending in general. A product's price and value influence almost all of us. Rolex watches, for example, appeal to customers who are willing to spend more for fine timepieces even when lower-priced watches are readily available. These types of luxury items are becoming very popular in China. In fact, in 2010 General Motors sold more cars in China than in the United States. Other companies like Procter & Gamble are not only going after the "new rich" in China, but are also developing products for those who earn \$2 per day.⁷ The amount of satisfaction received from a product already owned also may influence customers' desires to buy other products. Satisfaction depends not only on the quality of the currently owned product but also on numerous psychological and social forces. The American Customer Satisfaction Index, computed by the National Quality Research Center at the University of Michigan (see Figure 3.1), offers an indicator of customer satisfaction with a wide variety of businesses. Among other things, the index suggests that if customers become more dissatisfied, they may curtail their overall spending, which could stifle economic growth.⁸ Other factors that affect customers' general willingness to spend are expectations about future employment, income levels, prices, family size, and general economic conditions.

Economic Conditions

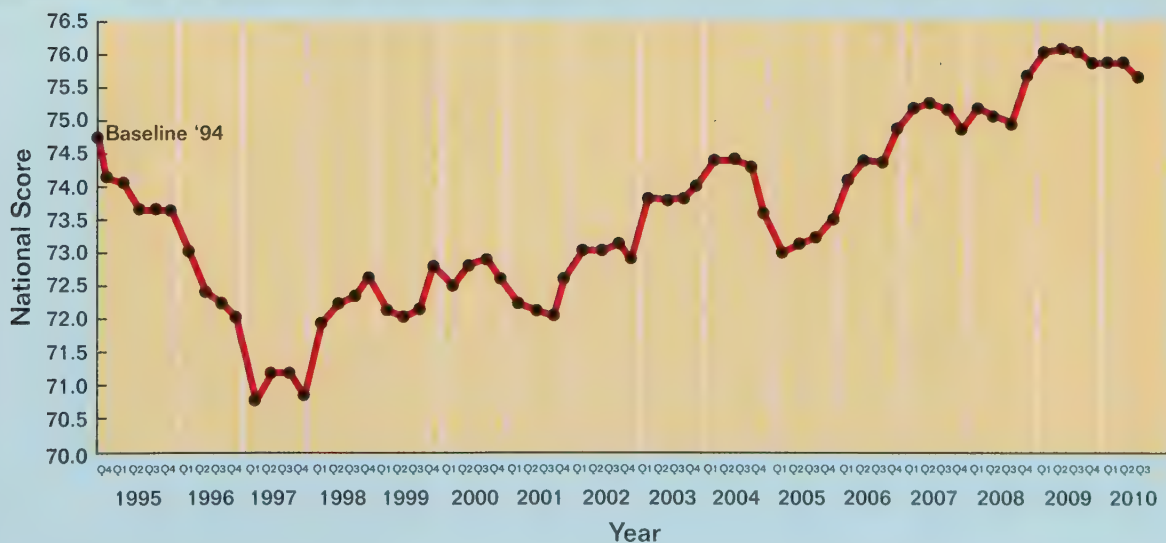
The overall state of the economy fluctuates in all countries. Changes in general economic conditions affect (and are affected by) supply and demand, buying power, willingness to spend, consumer expenditure levels, and the intensity of competitive behavior. Therefore, current economic conditions and changes in the economy have a broad impact on the success of organizations' marketing strategies.

Fluctuations in the economy follow a general pattern, often referred to as the **business cycle**. In the traditional view, the business cycle consists of four stages: prosperity, recession, depression, and recovery. During *prosperity*, unemployment is low, and total income is relatively high. Assuming a low inflation rate, this combination ensures high buying power. During a

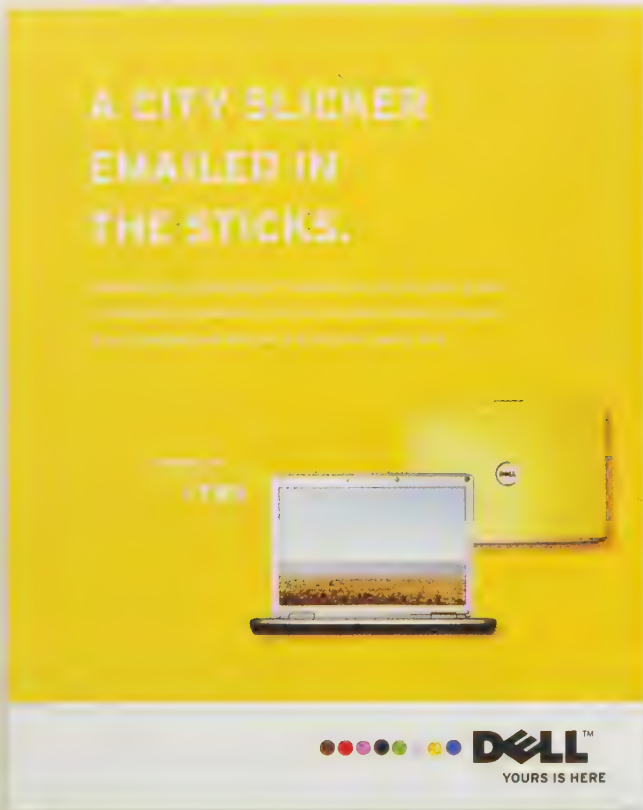
business cycle

A pattern of economic fluctuations that has four stages: prosperity, recession, depression, and recovery

FIGURE 3.1 American Customer Satisfaction Index



Source: "National Quarterly Scores," American Customer Satisfaction Index, www.theacsi.org/images/stories/images/nationalquarterlyscores/acsi_national_graph_lg.gif (accessed June 20, 2011).



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Discretionary Income

A consumer uses discretionary income when he or she purchases a laptop computer for personal use.

recession, however, unemployment rises, while total buying power declines. Pessimism accompanying a recession often stifles both consumer and business spending. A prolonged recession may become a *depression*, a period in which unemployment is extremely high, wages are very low, total disposable income is at a minimum, and consumers lack confidence in the economy. During *recovery*, the economy moves from depression or recession to prosperity. It is possible to have a recession without a full-blown depression. During this period, high unemployment begins to decline, total disposable income increases, and the economic gloom that reduced consumers' willingness to buy subsides. Both the ability and willingness to buy increase.

The business cycle can enhance the success of marketing strategies. In the prosperity stage, for example, marketers may expand their product offerings to take advantage of increased buying power. They may be able to capture a larger market share by intensifying distribution and promotion efforts. In times of recession or depression, when buying power decreases, many customers may become more price conscious and seek more basic, functional products. During economic downturns, a company should focus its efforts on determining precisely what functions buyers want and ensure that these functions are available in its product offerings. Promotional efforts should emphasize value and utility. Some firms make the mistake of drastically reducing their marketing efforts during a recession, harming their ability to compete. The United States and most of the world experienced a period of prosperity from 2004–2007. During

this time, household net worth increased by almost 6 percent a year, with rapidly increasing home values, low unemployment, low interest rates, and expanding credit availability. The decision by the government and financial institutions to grant subprime loans (higher interest loans to people with poor credit ratings) triggered the default of these loans and the deepest recession since the Great Depression of the 1930s. In 2008 investors lost \$10.2 trillion in stock value and net household worth declined by 13 percent.⁹ One out of nine homeowners were struggling to avoid foreclosure of the loans on their houses, and more than 4.4 million jobs were lost.¹⁰ Americans' financial health declined during the recession, with banks and lenders closing a record number of credit card accounts, lowering consumers' credit scores, and reducing credit lines.¹¹ By 2011 the Federal Housing Administration reported that more than 8 percent of its insured loans were 90 days or more past due on payments. Luxury retailers and even mid-priced department stores struggled to attract shoppers. On the other hand, discounters such as Wal-Mart Stores Inc., BJ's Wholesale Club, Costco Wholesale Corporation, Dollar Tree, and fast-food restaurants such as McDonald's saw sales gains.¹² Because of fears of job loss, savings increased and consumers lowered their expectations and trusted that things would get better.

By 2011, the recovery from the recession was advancing, but there was still more than 8 percent unemployment, with housing still depressed. Because the recession forced consumers to adopt new behaviors, many continued these behaviors even after the recession ended. For example, eating out at restaurants was lower after the recession than before because consumers had developed the habit of eating at home. Retailers saw a similar trend. Many consumers who had "traded down" to shopping at bargain stores like Family Dollar continued to shop there for certain items.¹³ Marketers need to remain flexible and make needed adjustments as the various phases of the business cycle change.

POLITICAL FORCES

Political, legal, and regulatory forces of the marketing environment are closely interrelated. Legislation is enacted; legal decisions are interpreted by courts; and regulatory agencies are created and operated, for the most part, by elected or appointed officials. Legislation and regulations (or their lack) reflect the current political outlook. Consequently, the political forces of the marketing environment have the potential to influence marketing decisions and strategies.

Reactive marketers view political forces as beyond their control and simply adjust to conditions arising from those forces. Some firms are more proactive, however, and seek to influence the political process. In some cases, organizations publicly protest the actions of legislative bodies. More often, organizations help to elect to political offices individuals who regard them positively. Much of this help is in the form of campaign contributions—often in the form of “soft money,” which refers to money that is donated to a political party with no specification on how the money will be spent. For years, legislators and other groups have sought to limit the amount of corporate campaign contributions. In the 2010 ruling *Citizens United v. Federal Election Commission*, the Supreme Court ruled that the government is not authorized to ban corporate spending in candidate elections.¹⁴ This means that future elections can be affected by large corporate donations to candidates. Marketers also can influence the political process through political action committees (PACs) that solicit donations from individuals and then contribute those funds to candidates running for political office.

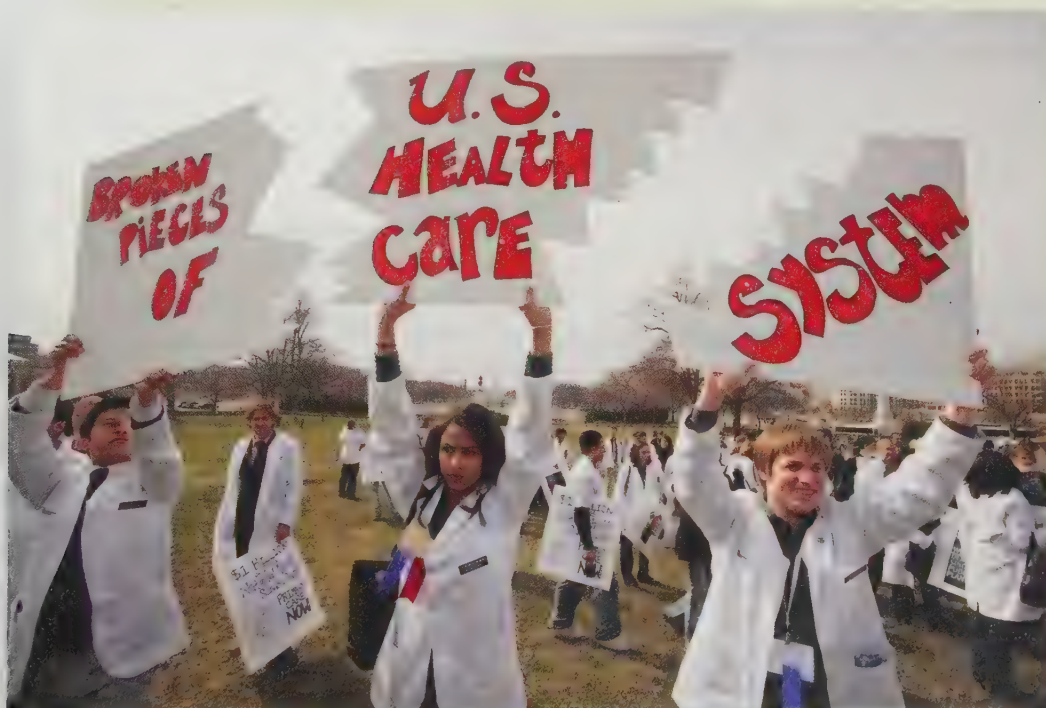


Marketing Debate

The Sustainability of Palm Oil

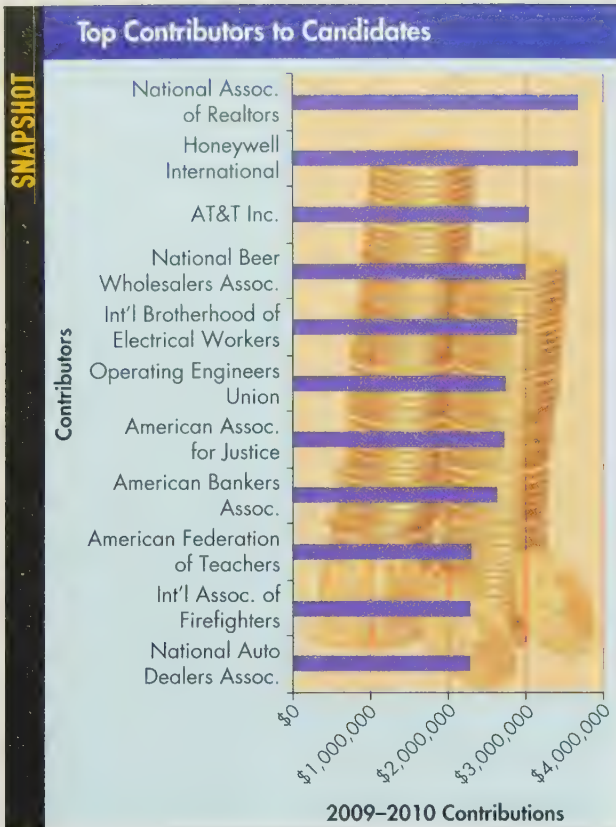
ISSUE: *Should palm oil be turned into a socially undesirable product?*

Environmental organizations are waging a war against unsustainable palm oil. Companies caught in the cross-fire include Nestlé, Unilever, and Burger King. Palm oil producers have destroyed rain forests, threatened animal populations, and produced large amounts of carbon dioxide. Critics are demanding that companies start obtaining palm oil from sustainable sources. However, demand for certified palm oil has been low, and firms have found it hard to monitor their large networks of suppliers to ensure sustainable sourcing. Strong monopolistic competition makes it costly for companies to cut back on this important product ingredient. Do companies have a responsibility to find alternatives to palm oil, even if it means incurring heavy costs in the process?^a



Political Forces

The American Medical Student Association lobbied against lawmakers to protest rising health-care costs.



Source: "Political Action Committees," Opensecrets.org; Center for Responsive Politics
www.opensecrets.org/pacs/index.php?cycle=2010&party=A (accessed January 24, 2011).

Companies also can participate in the political process through lobbying to persuade public and/or government officials to favor a particular position in decision-making. Many companies concerned about the threat of legislation or regulation that may negatively affect their operations employ lobbyists to communicate their concerns to elected officials. Marketers of cigarettes, for example, spend millions on lobbyists to persuade state and local officials that their governments should not increase taxes on cigarettes, which effectively raises their price to consumers.¹⁵

Even court decisions can change, influencing decisions related to the marketing mix variable. For example, a Supreme Court ruling allowed manufacturers broader powers to set minimum prices and restrict retailers from discounting—which amounted to price fixing—something that had previously been illegal. Lobbyists and the political activities of firms can influence these decisions.¹⁶

LEGAL AND REGULATORY FORCES

A number of federal laws influence marketing decisions and activities. Table 3.2 lists some of the most significant pieces of legislation. Regulatory agencies and self-regulatory forces also affect marketing efforts.

Regulatory Agencies

Federal regulatory agencies influence many marketing activities, including product development, pricing, packaging, advertising, personal selling, and distribution. Usually, these bodies have the power to enforce specific laws, as well as some discretion in establishing operating rules and regulations to guide certain types of industry practices.

Of all the federal regulatory units, the **Federal Trade Commission (FTC)** influences marketing activities most. Although the FTC regulates a variety of business practices, it allocates considerable resources to curbing false advertising, misleading pricing, and deceptive packaging and labeling. When it receives a complaint or otherwise has reason to believe that a firm is violating a law, the commission issues a complaint stating that the business is in violation. If a company continues the questionable practice, the FTC can issue a cease-and-desist order demanding that the business stop doing whatever caused the complaint. The firm can appeal to the federal courts to have the order rescinded. However, the FTC can seek civil penalties in court, up to a maximum penalty of \$10,000 a day for each infraction if a cease-and-desist order is violated. Toys“R”Us paid a fine of \$1.3 million after the FTC accused the company of unfairly influencing marketing distribution activities. Toys“R”Us allegedly made agreements with suppliers to prevent them from selling the same toys to companies like Costco and Walmart. This violated a previous order that forbid Toys“R”Us from engaging in such practices.¹⁷ The FTC also assists businesses in complying with laws and files lawsuits against those engaging in deceptive marketing practices. For instance, the FTC accused Intel of anticompetitive behavior, including purposely corrupting software to run slower on computers with rival processors and paying manufacturers rebates for refusing to use rival microchips. Intel settled with the FTC by agreeing to cease these practices and establishing a \$10 million fund to assist customers in recompiling the corrupted software.¹⁸

Federal Trade Commission (FTC)

An agency that regulates a variety of business practices and curbs false advertising, misleading pricing, and deceptive packaging and labeling

The commission also monitors new marketing methods every year. When a company's marketing activities are found to be misleading, the commission can require companies to

TABLE 3.2 Major Federal Laws Affecting Marketing Decisions

Act (Date Enacted)	Purpose
Procompetitive legislation	
Sherman Antitrust Act (1890)	Prohibits contracts, combinations, or conspiracies to restrain trade; calls monopolizing or attempting to monopolize a misdemeanor offense.
Clayton Act (1914)	Prohibits specific practices such as price discrimination, exclusive dealer arrangements, and stock acquisitions in which the effect may notably lessen competition or tend to create a monopoly.
Federal Trade Commission Act (1914)	Created the Federal Trade Commission; also gives the FTC investigatory powers to be used in preventing unfair methods of competition.
Robinson-Patman Act (1936)	Prohibits price discrimination that lessens competition among wholesalers or retailers; prohibits producers from giving disproportionate services or facilities to large buyers.
Wheeler-Lea Act (1938)	Prohibits unfair and deceptive acts and practices, regardless of whether competition is injured; places advertising of foods and drugs under the jurisdiction of the FTC.
Celler-Kefauver Act (1950)	Prohibits any corporation engaged in commerce from acquiring the whole or any part of the stock or other share of the capital assets of another corporation when the effect substantially lessens competition or tends to create a monopoly.
Consumer Goods Pricing Act (1975)	Prohibits the use of price-maintenance agreements among manufacturers and resellers in interstate commerce.
Antitrust Improvements Act (1976)	Requires large corporations to inform federal regulators of prospective mergers or acquisitions so that they can be studied for any possible violations of the law.
Consumer protection legislation	
Pure Food and Drug Act (1906)	Prohibits the adulteration and mislabeling of food and drug products; established the Food and Drug Administration.
Fair Packaging and Labeling Act (1966)	Makes illegal the unfair or deceptive packaging or labeling of consumer products.
Consumer Product Safety Act (1972)	Established the Consumer Product Safety Commission; protects the public against unreasonable risk of injury and death associated with products.
Magnuson-Moss Warranty (FTC) Act (1975)	Provides for minimum disclosure standards for written consumer product warranties; defines minimum consent standards for written warranties; allows the FTC to prescribe interpretive rules in policy statements regarding unfair or deceptive practices.
Nutrition Labeling and Education Act (1990)	Prohibits exaggerated health claims and requires all processed foods to contain labels showing nutritional information.
Telephone Consumer Protection Act (1991)	Establishes procedures to avoid unwanted telephone solicitations; prohibits marketers from using an automated telephone dialing system or an artificial or prerecorded voice to certain telephone lines.
Children's Online Privacy Protection Act (2000)	Regulates the online collection of personally identifiable information (name, mailing address, e-mail address, hobbies, interests, or information collected through cookies) from children under age 13.

(continued)

TABLE 3.2 Major Federal Laws Affecting Marketing Decisions (continued)

Do Not Call Implementation Act (2003)	Directs the Federal Communications Commission (FCC) and the FTC to coordinate so that their rules are consistent regarding telemarketing call practices, including the Do Not Call Registry and other lists, as well as call abandonment.
Dodd-Frank Wall Street Reform and Consumer Protection Act (2010)	Promotes financial reform to increase accountability and transparency in the financial industry, protects consumers from deceptive financial practices, and established the Bureau of Consumer Financial Protection.
Trademark and copyright protection legislation	
Lanham Act (1946)	Provides protections and regulation of brand names, brand marks, trade names, and trademarks.
Trademark Law Revision Act (1988)	Amends the Lanham Act to allow brands not yet introduced to be protected through registration with the Patent and Trademark Office.
Federal Trademark Dilution Act (1995)	Gives trademark owners the right to protect trademarks and requires relinquishment of names that match or parallel existing trademarks.
Digital Millennium Copyright Act (1998)	Refines copyright laws to protect digital versions of copyrighted materials, including music and movies.

run corrective advertising. Sometimes the FTC will insist that companies discard advertising claims altogether. The FTC challenged Dannon Co. for its claims that a daily serving of its Activia yogurt relieves irregularity and aids in “slow intestinal transit time,” along with claims that its DanActive dairy drink helps users avoid catching the cold or flu. The FTC found these claims to be unsubstantiated. Dannon agreed to stop making these claims.¹⁹

Unlike the FTC, other regulatory units are limited to dealing with specific products, services, or business activities. For example, the Food and Drug Administration (FDA) enforces regulations prohibiting the sale and distribution of adulterated, misbranded, or hazardous food and drug products. The Consumer Product Safety Commission (CPSC) ensures compliance with the Consumer Product Safety Act and protects the public from unreasonable risk of injury from any consumer product not covered by other regulatory agencies.

In addition, all states, as well as many cities and towns, have regulatory agencies that enforce laws and regulations regarding marketing practices within their states or municipalities. State and local regulatory agencies try not to establish regulations that conflict with those of federal regulatory agencies. They generally enforce laws dealing with the production and sale of particular goods and services. Utility, insurance, financial, and liquor industries are commonly regulated by state agencies. Among these agencies’ targets are misleading advertising and pricing.

Self-Regulation

In an attempt to be good corporate citizens and to prevent government intervention, some businesses try to regulate themselves. Walmart, for example, agreed to lower the prices of fruits and vegetables and reduce the amounts of fats, sugars, and salts in the foods it sells. Walmart’s decision came in response to the growing concerns about obesity in America.²⁰ Several trade associations have also developed self-regulatory programs. Although these programs are not a direct outgrowth of laws, many were established to stop or stall the development of laws and governmental regulatory groups that would regulate the associations’

marketing practices. An example of this is Yahoo!'s system in the United Kingdom. This system allows consumers to opt out of tracking cookies that allow websites to collect information about Internet habits.²¹

Perhaps the best-known nongovernmental regulatory group is the **Better Business Bureau**, a local regulatory agency supported by local businesses. More than 120 bureaus help to settle problems between consumers and specific business firms in the United States and Canada.²² Each bureau also acts to preserve good business practices in a locality, although it usually lacks strong enforcement tools for dealing with firms that employ questionable practices. When a firm continues to violate what the Better Business Bureau believes to be good business practices, the bureau warns consumers through local newspapers or broadcast media. If the offending organization is a Better Business Bureau member, it may be expelled from the local bureau. For example, the Better Business Bureau revoked the accreditation of New York businesses Capital District Remodelers, Century 21 Harvey Realty, and Property Solutions Management for failing to resolve customer complaints.²³

The National Advertising Division (NAD) of the Council of Better Business Bureaus operates a self-regulatory program that investigates claims regarding alleged deceptive advertising. For example, after NAD investigated a complaint from Benjamin Moore & Co., it recommended that Sherwin-Williams Company modify or discontinue its advertising claim for its Harmony line of paints. Sherwin-Williams claimed that this line was free of volatile organic compounds (VOCs). The NAD determined that because certain colors in the Harmony line of paints exceeded the 5 grams/liter VOC threshold, the claims could be misleading to consumers.²⁴

Another self-regulatory entity, the **National Advertising Review Board (NARB)**, considers cases in which an advertiser challenges issues raised by the National Advertising Division (NAD) about an advertisement. Cases are reviewed by panels drawn from NARB members representing advertisers, agencies, and the public. For example, PatentHEALTH appealed to NARB after NAD recommended that it cease claiming that its Trigosamine Fast Acting joint health supplement “works” or “gets results” in three days. NAB felt that the claims were not substantiated with proper studies. NARB concurred with NAD on the issue.²⁵ The NARB, sponsored by the Council of Better Business Bureaus and three advertising trade organizations, has no official enforcement powers. However, if a firm refuses to comply with its decision, the NARB may publicize the questionable practice and file a complaint with the FTC.

Self-regulatory programs have several advantages over governmental laws and regulatory agencies. Establishment and implementation are usually less expensive, and guidelines are generally more realistic and operational. In addition, effective self-regulatory programs reduce the need to expand government bureaucracy. However, these programs have several limitations. When a trade association creates a set of industry guidelines for its members, nonmember firms do not have to abide by them. Furthermore, many self-regulatory programs lack the tools or authority to enforce guidelines. Finally, guidelines in self-regulatory programs are often less strict than those established by government agencies.

TECHNOLOGICAL FORCES

The word *technology* brings to mind scientific advances such as iPads, electric vehicles, 3D televisions, smartphones, cloning, lifestyle drugs, the Internet, radio-frequency identification tags, and more. Such developments make it possible for marketers to operate ever more efficiently and to provide an exciting array of products for consumers. However, even though these innovations are outgrowths of technology, none of them *is* technology. **Technology** is the application of knowledge and tools to solve problems and perform tasks more efficiently.

Technology determines how we, as members of society, satisfy our physiologic needs. In various ways and to varying degrees, eating and drinking habits, sleeping patterns, sexual

Better Business Bureau

A local, nongovernmental regulatory agency, supported by local businesses, that helps settle problems between customers and specific business firms

National Advertising Review Board (NARB)

A self-regulatory unit that considers challenges to issues raised by the National Advertising Division (an arm of the Council of Better Business Bureaus) about an advertisement

technology

The application of knowledge and tools to solve problems and perform tasks more efficiently



Impact of Technology

The Bowers & Wilkins speaker dock Zeppelin Air enables users to play music by streaming directly from a variety of electronic devices.

activities, health care, and work performance are all influenced by both existing technology and advances in technology. Because of the technological revolution in communications, for example, marketers can now reach vast numbers of people more efficiently through a variety of media. Social networks, smartphones, and tablet computers help marketers to interact with customers, make appointments, and handle last-minute orders or cancellations. Consider that a growing number of households have given up their “land lines” in favor of using cell phones as their primary phones, with global mobile device subscriptions expected to hit the 6 billion mark in the next few years.²⁶ The proliferation of cell phones, most with text-message capabilities, has led marketers to employ text and multimedia messaging on cell phones to reach their target markets. Restaurants, for example, can send their lunch specials to subscribers’ cell phones.

Personal computers are now in three-quarters of U.S. consumers’ homes, and most of them include broadband or modems for accessing the Internet. The Internet has become a major tool in most households for communicating, researching, shopping, and entertaining. The use of video online, especially through websites such as YouTube, has exploded from 7 percent of Internet traffic in 2005 to more than 25 percent in 2010.²⁷ Companies are using the Internet to connect employees from all over the world at low costs. Amazon.com, for instance, is using a service known as the Mechanical Turk to allocate tasks to more than 200,000 online freelancers.²⁸ Although we enjoy the benefits of communicating through the Internet, we are increasingly concerned about protecting our privacy and intellectual property. Likewise, although

health and medical research has created new drugs that save lives, cloning and genetically modified foods have become controversial issues to many segments of society. Home environments, health care, leisure, and work performance are all shaped profoundly by both current technology and advances in technology.²⁹

The effects of technology relate to such characteristics as dynamics, reach, and the self-sustaining nature of technological progress. The *dynamics* of technology involve the constant change that often challenges the structures of social institutions, including social relationships, the legal system, religion, education, business, and leisure. *Reach* refers to the broad nature of technology as it moves through society. Consider the impact of cellular and wireless telephones. The ability to call from almost any location has many benefits but also has negative side effects, including increases in traffic accidents, increased noise pollution, and fears about potential health risks.³⁰ The *self-sustaining* nature of technology relates to the fact that technology acts as a catalyst to spur even faster development. As new innovations are introduced, they stimulate the need for more advancements to facilitate further development. For example, the Internet has created the need for ever-faster transmission of signals through 4G, cable broadband, DSL, and Wi-fi. Technology initiates a change process that creates new opportunities for new technologies in every industry segment or personal life experience that it touches. At some point there is even a multiplier effect that causes still greater demand for more change to improve performance.³¹

It is important for firms to determine when a technology is changing an industry and to define the strategic influence of the new technology. For example, wireless devices in use today include radios, cell phones, laptop computers, TVs, pagers, and car keys. To remain competitive, companies today must keep up with and adapt to these technological advances. Through a procedure known as *technology assessment*, managers try to foresee the effects of

new products and processes on their firms' operation, on other business organizations, and on society in general. With information obtained through a technology assessment, management tries to estimate whether benefits of adopting a specific technology outweigh costs to the firm and to society at large. The degree to which a business is technologically based also influences its managers' response to technology.

SOCIOCULTURAL FORCES

Sociocultural forces are the influences in a society and its culture(s) that bring about changes in attitudes, beliefs, norms, customs, and lifestyles. Profoundly affecting how people live, these forces help to determine what, where, how, and when people buy products. Like the other environmental forces, sociocultural forces present marketers with both challenges and opportunities.

Changes in a population's demographic characteristics—age, gender, race, ethnicity, marital and parental status, income, and education—have a significant bearing on relationships and individual behavior. These shifts lead to changes in how people live and ultimately in their consumption of products such as food, clothing, housing, transportation, communication, recreation, education, and health services. We look at a few of the changes in demographics and diversity that are affecting marketing activities.

One demographic change affecting the marketplace is the increasing proportion of older consumers. According to the U.S. Bureau of the Census, the number of people age 65 and older is expected to increase to more than 150 million.³² Consequently, marketers can expect significant increases in the demand for health-care services, recreation, tourism, retirement housing, and selected skin-care products.

The number of singles is also on the rise. Nearly 42.6 percent of U.S. adults are unmarried, and many plan to remain that way.³³ Single people have quite different spending patterns than couples and families with children. They are less likely to own homes and thus buy less furniture and fewer appliances. They spend more heavily on convenience foods, restaurants, travel, entertainment, and recreation. In addition, they tend to prefer smaller packages, whereas families often buy bulk goods and products packaged in multiple servings.

The United States is entering another baby boom, with more than 84 million Americans age 19 or younger. The new baby boom represents 27.1 percent of the total population; the original baby boomers, born between 1946 and 1964, account for about 27 percent.³⁴ The children of the original baby boomers differ from one another radically in terms of race, living arrangements, and socioeconomic class. Thus, the newest baby boom is much more diverse than previous generations.

Despite this trend, the birthrate has begun to decline. The U.S. population experienced the slowest rate of growth in the last decade since the Great Depression. The population grew 9.7 percent to almost 309 million. While the birthrate is declining, new immigrants help with population gains.³⁵ This represents another noteworthy population trend: the increasingly multicultural nature of U.S. society. The number of immigrants into the United States has risen steadily during the past 40 years. By the turn of the 21st century, the

sociocultural forces

The influences in a society and its culture(s) that change people's attitudes, beliefs, norms, customs, and lifestyles

Retired but busy.

Wireless but easy.

Introducing the Coupe. Exclusively from Verizon Wireless. With a large, easy-to-read screen and keypad, plus dedicated buttons for emergency contacts. It's everything you need, and nothing you don't. Backed by the Good Housekeeping Seal and America's most reliable wireless network.

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Demographic Changes

Verizon Wireless often targets older customers with phones that are easier to use.

U.S. population had shifted from one dominated by whites to one consisting largely of three racial and ethnic groups: whites, blacks, and Hispanics. The U.S. government projects that by the year 2015, more than 57 million Hispanics, 42 million blacks, and 16 million Asians will call the United States home.³⁶ Figure 3.2 shows how experts believe the U.S. population will change between the years 2000 and 2015.

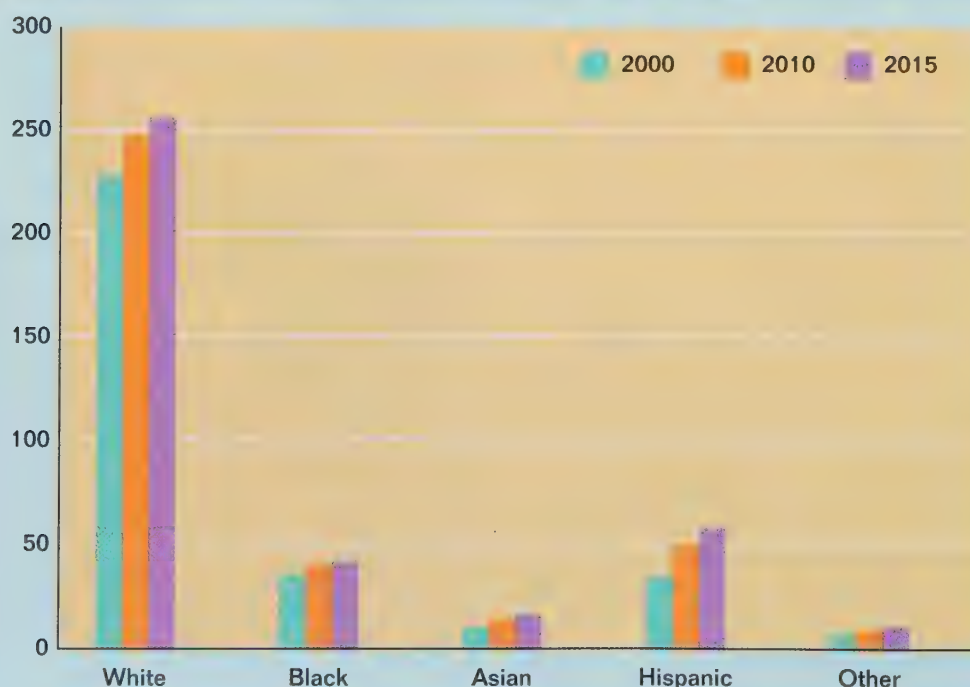
Marketers recognize that these profound changes in the U.S. population bring unique problems and opportunities. Hispanics, for example, wield about \$1.2 trillion in annual purchasing power, and experts project that figure will grow to \$1.4 trillion by 2013.³⁷ But a diverse population means a more diverse customer base, and marketing practices must be modified—and diversified—to meet its changing needs. Insurance company State Farm found success with the Hispanic market when it launched its “Ahi Estoy” campaign. Honing in on the Hispanic culture’s love of music, the company sponsored a Hispanic music band that has gathered a following and improved State Farm’s reputation in the Hispanic community.³⁸

Changes in social and cultural values have dramatically influenced people’s needs and desires for products. Although these values do not shift overnight, they do change at varying speeds. Marketers try to monitor these changes because knowing this information can equip them to predict changes in consumers’ needs for products, at least in the near future.

People today are more concerned about the foods they eat and thus are choosing more low-fat, organic, natural, and healthy products. Marketers have responded with a proliferation of foods, beverages, and exercise products that fit this new lifestyle. In addition to the proliferation of new organic brands, such as Earthbound Farm, Horizon Dairy, and Whole Foods’ 365, many conventional marketers have introduced organic versions of their products, including Orville Redenbacher, Heinz, and even Walmart.

The major source of values is the family. Values about the permanence of marriage are changing, but children remain important. Marketers have responded with safer,

FIGURE 3.2 U.S. Population Projections by Race (in Millions)



Source: U.S. Bureau of the Census, *Statistical Abstract of the United States*, 2011 (Washington DC: Government Printing Office, 2009), p. 16.

upscale baby gear and supplies, children's electronics, and family entertainment products. Marketers are also aiming more marketing efforts directly at children because children often play pivotal roles in purchasing decisions. Children and family values are also a factor in the trend toward more eat-out and takeout meals. Busy families generally want to spend less time in the kitchen and more time together enjoying themselves. Beneficiaries of this trend primarily have been fast-food and casual restaurants like McDonald's, Taco Bell, Boston Market, and Applebee's, but most supermarkets have added more ready-to-cook or ready-to-serve meal components to meet the needs of busy customers. Some, like Whole Foods, also offer eat-in cafés.

Social Responsibility and Ethics in Marketing

In marketing, **social responsibility** refers to an organization's obligation to maximize its positive impact and minimize its negative impact on society. Social responsibility thus deals with the total effect of all marketing decisions on society. In marketing, social responsibility includes the managerial processes needed to monitor, satisfy, and even exceed stakeholder expectations and needs.³⁹ Remember from Chapter 1 that stakeholders are groups that have a "stake," or claim, in some aspect of a company's products, operations, markets, industry, and outcomes. CEOs such as Indra Nooyi, chairman and CEO of PepsiCo, are increasingly recognizing that in the future companies will have to "do better by doing better." According to Nooyi, such a perspective "will leave no doubt that performance without purpose is not a long-term sustainable formula."⁴⁰

Ample evidence demonstrates that ignoring stakeholders' demands for responsible marketing can destroy customers' trust and even prompt government regulations. Irresponsible actions that anger customers, employees, or competitors may not only jeopardize a marketer's financial standing, but have legal repercussions as well. For instance, GlaxoSmithKline took a \$3.49 billion litigation charge regarding a U.S. investigation of its marketing claims along with additional consumer lawsuits. The investigation examined whether the drug company promoted the drug Wellbutrin for uses not approved by the FDA and whether it accurately portrayed the risks of Paxil.⁴¹ In contrast, socially responsible activities can generate positive publicity and boost sales. The Breast Cancer Awareness Crusade sponsored by Avon Products, for example, has helped to raise \$700 million worldwide to fund community-based breast cancer education and early-detection services. Hundreds of stories about Avon's efforts have appeared in major media, which contributed to an increase in company sales.⁴²

Socially responsible efforts such as Avon's have a positive impact on local communities; at the same time, they indirectly help the sponsoring organization by attracting goodwill, publicity, and potential customers and employees. Thus, while social responsibility is certainly a positive concept in itself, most organizations embrace it in the expectation of indirect long-term benefits.

social responsibility

An organization's obligation to maximize its positive impact and minimize its negative impact on society



Sociocultural Forces

Wrigley targets a culturally diverse market with this Extra advertisement.

Emerging Trends in Marketing



The Limits of Starbucks' Green Marketing

With sociocultural forces changing how consumers view sustainability, Starbucks is working hard to create an eco-friendly image. The company, however, has an Achilles heel—the disposable cup. Starbucks contributes more than 3 billion paper cups to the nation's trash each year. Although the company does engage in responsible practices, the cup puts a damper on its green claims.

Starbucks is taking notice. It now uses a recycled beverage sleeve, uses No. 5 plastic in its plastic cups (No. 5 produces

45 percent less greenhouse gas emissions), and has hosted a green cup competition. Still, with the Federal Trade Commission (FTC) tightening restrictions on green claims, it is difficult to create a cup that can truly be labeled recyclable, compostable, or biodegradable. The FTC will not allow claims unless most consumers also have access to the proper facilities in which to dispose of the cups. Then there is the human element—will people properly dispose of the cup? To retain its eco-friendly image, Starbucks must battle to create the ultimate green cup.^b

Socially responsible organizations strive for **marketing citizenship** by adopting a strategic focus for fulfilling the economic, legal, ethical, and philanthropic social responsibilities that their stakeholders expect of them. Companies that consider the diverse perspectives of stakeholders in their daily operations and strategic planning are said to have a *stakeholder orientation*, an important element of corporate citizenship.⁴³ A stakeholder orientation in marketing goes beyond customers, competitors, and regulators to include understanding and addressing the needs of all stakeholders, including communities and special-interest groups. As a result, organizations are now under pressure to undertake initiatives that demonstrate a balanced perspective on stakeholder interests.⁴⁴ Pfizer, for example, has secured stakeholder input on a number of issues, including rising health-care costs and health-care reform.⁴⁵ As Figure 3.3 shows, the economic, legal, ethical, and philanthropic dimensions of social responsibility can be viewed as a pyramid.⁴⁶ The economic and legal aspects have long been acknowledged, but ethical and philanthropic issues have gained recognition more recently.

ECONOMIC DIMENSION

At the most basic level, all companies have an economic responsibility to be profitable so that they can provide a return on investment to their owners and investors, create jobs for the community, and contribute goods and services to the economy. How organizations relate to stockholders, employees, competitors, customers, the community, and the natural environment affects the economy.

Marketers also have an economic responsibility to compete fairly. Size frequently gives companies an advantage over others. Large firms often can generate economies of scale that allow them to put smaller firms out of business. Consequently, small companies and even whole communities may resist the efforts of firms such as Walmart, Home Depot, and Best Buy to open stores in their vicinity. These firms can operate at such low costs that small, local firms often cannot compete. Such issues create concerns about social responsibility for organizations, communities, and consumers.

marketing citizenship

The adoption of a strategic focus for fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected by stakeholders

FIGURE 3.3 The Pyramid of Corporate Social Responsibility

Source: Archie B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," adaptation of Figure 3, p. 42. Reprinted from *Business Horizons*, July/August 1991. © 1991 by the Foundation for the School of Business at Indiana University. Reprinted with permission by Elsevier.

LEGAL DIMENSION

Marketers are also expected, of course, to obey laws and regulations. The efforts of elected representatives and special-interest groups to promote responsible corporate behavior have resulted in laws and regulations designed to keep U.S. companies' actions within the range of acceptable conduct. Although most of the cases in the news deal with serious misconduct, not all legal cases are a violation of law. Sometimes, they are an attempt to interpret the law. Laws can be ambiguous, and new situations arise that create a need for courts to interpret whether the situation should be allowed or regulated. For instance, Google has come across legal hurdles with its plans to make millions of books available over the Internet. One judge ruled against a settlement to allow Google to publish millions of books online based on concerns over copyright infringement. Because this is an entirely new situation made possible with technology, it is up to legal officials to determine its legality.⁴⁷

When marketers engage in deceptive practices to advance their own interests over those of others, charges of fraud may result. In general, fraud is any purposeful communication that deceives, manipulates, or conceals facts in order to create a false impression. It is considered a crime, and convictions may result in fines, imprisonment, or both. In one global business study, nearly one-third of organizations who were victims of fraud experience losses of more than \$500,000, with one-fourth facing losses of more than \$1 million. While asset misappropriation was the most common type of fraud cited, financial statement fraud resulted in the highest losses.⁴⁸

While the focus in this chapter is on U.S. legal and regulatory issues, U.S. companies are subject to the regulatory systems of other countries. For example, China accused Walmart of

price gouging and misleading consumers by advertising false discounts on products sold in its stores. In this case, the accusation was that Walmart inflated the original prices of products, then made discounts look more than they actually were. For instance, one Walmart store in Nanning City claimed that its \$5.44 coffee was discounted from an original price of \$6.67. A Chinese agency found that the original price was actually \$5.66.⁴⁹

When customers, interest groups, or businesses become outraged over what they perceive as irresponsibility on the part of a marketing organization, they may urge their legislators to draft new legislation to regulate the behavior, or they may engage in litigation to force the organization to “play by the rules.” Deceptive advertising in particular causes consumers to become defensive toward all promotional messages and become distrustful of all advertising; thus, it harms not only consumers but also marketers themselves.⁵⁰

ETHICAL DIMENSION

Economic and legal responsibilities are the most basic levels of social responsibility for a good reason: failure to consider them may mean that a marketer is not around long enough to engage in ethical or philanthropic activities. Beyond these dimensions is **marketing ethics**, principles and standards that define acceptable conduct in marketing, as determined by various stakeholders, including the public, government regulators, private-interest groups, consumers, industry, and the organization itself. The most basic of these principles have been codified as laws and regulations to encourage marketers to conform to society’s expectations

of conduct. For instance, IBM was fined \$10 million for allegedly bribing officials in Asia. Such bribery constitutes both an ethical and a legal infraction as it is forbidden under the Foreign Corrupt Practices Act.⁵¹

However, marketing ethics goes beyond legal issues. Ethical marketing decisions foster trust, which helps to build long-term marketing relationships. Marketers should be aware of ethical standards for acceptable conduct from several viewpoints—company, industry, government, customers, special-interest groups, and society at large. When marketing activities deviate from accepted standards, the exchange process can break down, resulting in customer dissatisfaction, lack of trust, and lawsuits. The 2011 Edelman Trust Barometer revealed that less than half of American respondents trust businesses to do what is right. The survey targeted respondents between the ages of 25 and 64 from the top 10 GDP countries. Figure 3.4 compares American consumers’ trust of business compared to citizens of other countries from 2010–2011. The figure reveals that Americans’ trust in business appears to have diminished from the year before and is lower than China, Brazil, and India.⁵²

Scandals that have occurred within the past few years have helped fuel a greater distrust of business. For instance, Countrywide Financial was sharply criticized for providing liar loans, a situation in which borrowers overstated their income by as much as 50 percent in order to secure loans, sometimes with the lender’s knowledge. Countrywide’s CEO Angelo Mozilo was also investigated by the Securities and Exchange Commission and was the defendant of many lawsuits, including a lawsuit filed by Allstate Corp. for more

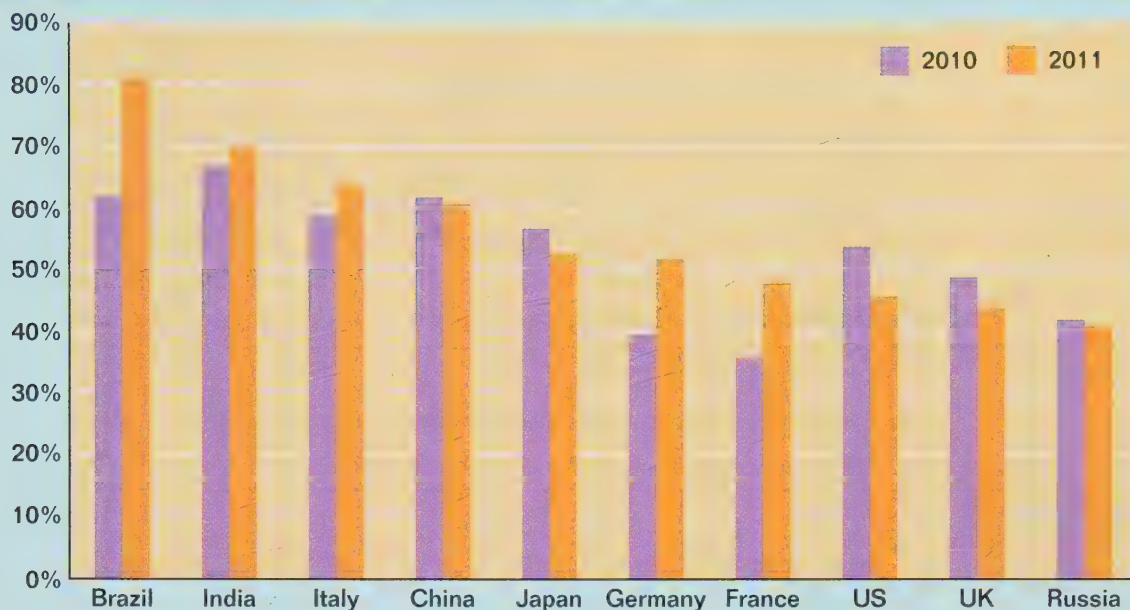
marketing ethics

Principles and standards that define acceptable marketing conduct as determined by various stakeholders



Ethical Dimensions of Social Responsibility

Organizations like the World Wildlife Foundation create awareness of environmental concerns for businesses and consumers.

FIGURE 3.4 Trust in Business for Top 10 GDP Countries

Source: 2011 Edelman Trust Barometer, www.edelman.com/trust/2011 (accessed January 25, 2011).

than \$700 million in residential mortgage-backed securities. Allstate accused Countrywide of knowingly passing off the securities as safe when it knew otherwise. Countrywide's reputational damage and major losses led to its acquisition by Bank of America.⁵³ When managers engage in activities that deviate from accepted principles, continued marketing exchanges become difficult, if not impossible. The best time to deal with such problems is during the strategic planning process, not after major problems materialize. For example, team members at Whole Foods are expected to contribute insight and make recommendations on how to address problems before they become major issues as well as how to improve compliance at stores. The company works to ensure that every employee, including managers, complies with the company's Code of Business Conduct.⁵⁴

An **ethical issue** is an identifiable problem, situation, or opportunity requiring an individual or organization to choose from among several actions that must be evaluated as right or wrong, ethical or unethical. Any time an activity causes marketing managers or customers in their target market to feel manipulated or cheated, a marketing ethical issue exists, regardless of the legality of that activity. For example, the Girl Scouts have been criticized because their three most popular cookies—Samoas, Tagalongs, and Thin Mints—contain partially hydrogenated oils (trans fat). Yet the company has carried a “0 percent trans fat” label on their cookie boxes since 2007. By law, companies are allowed to label their food products as containing 0 percent trans fat as long as the product contains less than 0.5 gram of trans fat per serving. Even though the cookies' labels are legal, the ethics involved are debatable.⁵⁵

Regardless of the reasons behind specific ethical issues, marketers must be able to identify these issues and decide how to resolve them. To do so requires familiarity with the many kinds of ethical issues that may arise in marketing. Research suggests that the greater the consequences associated with an issue, the more likely it will be recognized as an ethics issue, and the more important it will be to making an ethical decision.⁵⁶ Some examples of ethical issues related to product, promotion, price, and distribution (the marketing mix) appear in Table 3.3.

ethical issue

An identifiable problem, situation, or opportunity requiring a choice among several actions that must be evaluated as right or wrong, ethical or unethical.

TABLE 3.3 Ethical Issues in Marketing

Issue Category	Examples
Product	• Failing to disclose risks associated with a product • Failing to disclose information about a product's function, value, or use • Failing to disclose information about changes in the nature, quality, or size of a product
Distribution	• Failing to live up to the rights and responsibilities associated with specific intermediary roles • Manipulating product availability • Using coercion to force other intermediaries to behave in a certain way
Promotion	• False or misleading advertising • Using manipulative or deceptive sales promotions, tactics, and publicity • Offering or accepting bribes in personal selling situations
Pricing	• Price fixing • Predatory pricing • Failing to disclose the full price of a purchase

PHILANTHROPIC DIMENSION

At the top of the pyramid are philanthropic responsibilities. These responsibilities, which go beyond marketing ethics, are not required of a company, but they promote human welfare or goodwill, as do the economic, legal, and ethical dimensions of social responsibility. That many companies have demonstrated philanthropic responsibility is evidenced by the nearly \$14.5 billion in annual corporate donations and contributions to environmental and social causes and relief efforts.⁵⁷ After natural disasters such as the earthquake in Haiti, for example, many corporations—including Coca-Cola, Target, Hewlett-Packard, Microsoft, Visa, Unilever, General Mills, FedEx, The Walt Disney Company, and Pfizer—donated millions of dollars in cash, supplies, equipment, food, and medicine to help victims.⁵⁸ Philanthropy is not limited to large companies, however. For example, Austin-based Kerbey Lane Café strives to give back to the Austin community, with staff volunteering for charities such as the Special Olympics and the Austin Race for the Cure. The café also provides gift card and cash donations to charities like Habitat for Humanity, the American Cancer Society's Relay for Life, and the Sustainable Food Center, along with sponsoring five local schools.⁵⁹

More companies than ever are adopting a strategic approach to corporate philanthropy. Many firms link their products to a particular social cause on an ongoing or short-term basis, a practice known as **cause-related marketing**. Target, for example, contributes significant resources to education through its Take Charge of Education program. Customers using a Target Redcard can designate a specific school to which Target donates 1 percent of their total purchase.⁶⁰ A Cone study revealed that 85 percent of respondents have a more positive image of companies that support causes which they care about.⁶¹ Some companies are beginning to extend the concept of corporate philanthropy beyond financial contributions by adopting a **strategic philanthropy** approach, the synergistic use of organizational core competencies and resources to address key stakeholders' interests and achieve both organizational and social benefits. Strategic philanthropy involves employees; organizational resources and expertise;

cause-related marketing

The practice of linking products to a particular social cause on an ongoing or short-term basis

strategic philanthropy

The synergistic use of organizational core competencies and resources to address key stakeholders' interests and achieve both organizational and social benefits

and the ability to link these assets to the concerns of key stakeholders, including employees, customers, suppliers, and social needs. Strategic philanthropy involves both financial and nonfinancial contributions to stakeholders (employee time, goods and services, and company technology and equipment, as well as facilities), but it also benefits the company. Salesforce.com, for example, believes in the benefits of strategic philanthropy so strongly that it incorporates community service into its corporate culture. Salesforce.com feels that effective community service involves the donation of time, money, and product. As a result, Salesforce.com allows employees to take up to 1 percent of their time to volunteer in their communities, it sets aside 1 percent of the company's capital for the Salesforce.com Foundation, and it donates or discounts licenses of its CRM (Customer Relationship Management) software to more than 8,000 nonprofits worldwide.⁶²

Although social responsibility may seem to be an abstract ideal, managers make decisions related to social responsibility every day. To be successful, a business must determine what customers, government regulators, and competitors, as well as society in general, want or expect in terms of social responsibility. Two major categories of social responsibility issues are the natural environment and consumerism.

Sustainability

One of the more common ways marketers demonstrate social responsibility is through programs designed to protect and preserve the natural environment. Most *Fortune* 500 companies now engage in recycling activities and make significant efforts to reduce waste and conserve energy. Many companies are making contributions to environmental protection organizations, sponsoring and participating in cleanup events, promoting recycling, retooling manufacturing processes to minimize waste and pollution, employing more environmentally friendly energy sources, and generally reevaluating the effects of their products on the natural environment. The approach to environment is to reduce, reuse, and recycle. The United States is the number-one trash-producing country in the world, with the average person generating about 1,609 pounds per year.⁶³

As mentioned in Chapter 1, green marketing is a strategic process involving stakeholder assessment to create meaningful long-term relationships with customers while maintaining, supporting, and enhancing the natural environment. Toyota, Honda, and Ford, for example, have succeeded in marketing “hybrid” cars that use electric motors to augment their internal combustion engines, improving the vehicles' fuel economy without reducing their power. Hewlett-Packard (HP) has taken a leadership role in the recycling of electronic waste by creating drop-off locations for rechargeable batteries and recycling programs for InkJet and LaserJet cartridges, computer hardware, and other electronic equipment.⁶⁴ On the other hand, some stakeholders, including customers, try to dictate companies' use of responsible suppliers and sources of products.⁶⁵ Aveda, for example, requires magazines in which it places ads for its earth-friendly personal-care products to be printed on recycled paper. After Aveda began its campaign, *Shape* magazine switched to 30 percent post-consumer recycled paper.⁶⁶

Companies are also looking toward alternative energy sources as a way to reduce global carbon emissions. With climate change concerns and fluctuating gas prices, an investigation is under way to find alternative forms of energy as a source of fuel and electricity. Sources of alternative energy include wind power, solar power, nuclear power, biofuels, hydro, and geothermal power. We briefly go over each of these energy sources in the next paragraph.

Wind power, advocated by such high-profile individuals as oil tycoon T. Boone Pickens, is gaining widespread support in the United States and has already taken off in several European countries. For instance, one-fifth of Denmark's electricity needs are supplied by wind farms.⁶⁷ Because the United States is home to the Great Plains—one of the greatest sources of wind energy in the world—it is believed that wind energy could meet as much as 20 percent of the country's energy needs. Solar power, another popular alternative in the United States, uses

Sustainability

Many marketers emphasize their use of wind power to contribute to sustainability.



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light and heat from the sun to generate electricity. Some California Walmarts already use solar energy to power their stores, and the administration opted to add solar panels on the roof of the White House to set an example for the rest of the country.⁶⁸ Nuclear power remains controversial in the United States due to disasters like Japan's nuclear reactor crisis that occurred after the devastating 2011 earthquake and tsunami. However, nuclear energy is France's main source of power and has managed to reduce the country's nitrogen oxide and other emissions by 70 percent.⁶⁹ Geothermal energy comes from the natural heat inside the Earth, which is extracted by drilling into steam beds. One bonus of geothermal energy is that it can provide a constant supply of energy every day. IKEA stores have begun harnessing geothermal to meet their energy needs. Biofuels are fuels derived from organic materials like corn, sugarcane, vegetable oil, and even trash. Although biofuels have been largely successful in places like Brazil, they remain controversial in the United States. This is because while Brazil uses biofuels made largely from sugarcane, the biofuels in the United States are produced from corn. Because this is a food-based product, many feel that corn-based ethanol is raising the prices of corn and taking away from the world's food supply. To solve this problem, alternative ethanol sources have come under consideration, such as switchgrass and algae. Finally, hydropower uses water as a power source. Although water is a renewable resource, hydropower can result in

disruption of aquatic life through the creation of dams. At the same time, the Three Gorges Dam in China has resulted in reducing greenhouse gases for the country.

While climate change, pollution, and other negative byproducts represent serious concerns for the planet, some feel that the federal government has been too slow to address the issue. For this reason states, cities, and businesses have begun to take the matter into their own hands. For instance, after the United States Congress failed to approve a climate change bill, many states took action to reduce greenhouse gas emissions on their own. In a two-year period, states almost doubled their spending on energy efficiency.⁷⁰ When states fail to take desired measures, cities sometimes step in. Even though a proposed statewide ban of plastic bags was defeated in California, several cities—including Palo Alto, California; Kauai County in Hawaii; Brownsville, Texas; and Bethel, Alaska—banned the use of plastic shopping bags.⁷¹ Finally, individual businesses such as IKEA, Frogs Leap Winery, and New Belgium Brewing are adopting eco-friendly practices. Retailers across the country have begun installing charging stations for electric vehicles.⁷² While regulations from the federal government are certainly important in increasing eco-friendly practices, cities and businesses have proven essential in promoting sustainability.

Consumerism

Consumerism consists of organized efforts by individuals, groups, and organizations seeking to protect consumers' rights. The movement's major forces are individual consumer advocates, consumer organizations and other interest groups, consumer education, and consumer laws.

To achieve their objectives, consumers and their advocates write letters or send e-mails to companies, lobby government agencies, broadcast public-service announcements, and boycott companies whose activities they deem irresponsible. Some consumers choose to boycott firms and products out of a desire to support a cause and make a difference.⁷³ For example, several organizations evaluate children's products for safety, often announcing dangerous products before Christmas so that parents can avoid them. Other actions by the consumer movement have resulted in seat belts and air bags in automobiles, dolphin-safe tuna, the banning of unsafe three-wheel motorized vehicles, and numerous laws regulating product safety and information.

Also of great importance to the consumer movement are four basic rights spelled out in a "consumer bill of rights" drafted by President John F. Kennedy. These rights include the right to safety, the right to be informed, the right to choose, and the right to be heard. Ensuring consumers' *right to safety* means that marketers have an obligation not to market a product that they know could harm consumers. This right can be extended to imply that all products must be safe for their intended use, include thorough and explicit instructions for proper and safe use, and have been tested to ensure reliability and quality. Consumers' *right to be informed* means that consumers should have access to and the opportunity to review all relevant information about a product before buying it. Many laws require specific labeling on product packaging to satisfy this right. In addition, labels on alcoholic and tobacco products inform consumers that these products may cause illness and other problems. The Federal



Entrepreneurship in Marketing

Rent-a-Bike Programs for Health and the Environment

You may have heard of renting cars, but renting bikes? Urban rent-a-bike programs are becoming a reality in Europe, Mexico, and the United States. City governments and private companies alike are promoting hourly or subscription-based bike rentals. Bikes are kept at and returned to designated locations and accessed via computerized keys or other methods. The concept is supported by environmentalists and health advocates, but it is also being marketed by city officials who see it as a way to reduce pollution and traffic. In Mexico City the government supplied 1,200 "ecobici" with the hope of decreasing the city's dense pollution. In the first six months, 7,000 users rode more than 200,000 times. London launched its program and, two months later, had lined up more than 40,000 subscribers. Potential downsides to the program include dangerous drivers, unsuitable roads, theft, and vandalism. Despite these risks, cities are committed to making the concept work. Efforts are being made to improve roads and add bike lanes so as to make rent-a-bike a preferred option for travel.^c

consumerism

Organized efforts by individuals, groups, and organizations to protect consumers' rights

Green Marketing



IKEA's Sustainable Geothermal Energy Initiative

Although we rarely equate large-scale retailers with sustainability, IKEA takes the topic to heart. The company has a large carbon footprint, thanks in part to global shipping. To counteract this, IKEA leads a number of sustainable initiatives. One such initiative is running stores on geothermal energy. All of its Swedish stores are going geothermal, and IKEA has already transformed other European locations. Its first U.S. location is set for Denver, Colorado.

Geothermal energy uses heat pumps to bring the fairly consistent moderate temperature found roughly 500 feet

below ground to the surface via a liquid loop. The heat pump then heats or cools the air within the store. According to the Environmental Protection Agency, geothermal heat pumps eliminate 72 percent of energy used and emissions created by conventional systems.

In Denver, IKEA has partnered with the National Renewable Energy Laboratory, which will monitor the project. If successful, the organizations intend to publicize their plans so that other large-scale retailers can follow suit.^d

Trade Commission provides a wealth of consumer information at its website (www.ftc.gov/bcp/consumer.shtm) on a variety of topics ranging from automobiles and the Internet to diet, health, and fitness to identity theft. The *right to choose* means that consumers should have access to a variety of products and services at competitive prices. They also should be assured of satisfactory quality and service at a fair price. Activities that reduce competition among businesses in an industry might jeopardize this right. The *right to be heard* ensures that consumers' interests will receive full and sympathetic consideration in the formulation of government policy. The right to be heard also promises consumers fair treatment when they complain to marketers about products. This right benefits marketers too because when consumers complain about a product, the manufacturer can use this information to modify the product and make it more satisfying.

INCORPORATING SOCIAL RESPONSIBILITY AND ETHICS INTO STRATEGIC PLANNING

Although the concepts of marketing ethics and social responsibility are often used interchangeably, it is important to distinguish between them. *Ethics* relates to individual and group decisions—judgments about what is right or wrong in a particular decision-making situation—whereas *social responsibility* deals with the total effect of marketing decisions on society. The two concepts are interrelated because a company that supports socially responsible decisions and adheres to a code of conduct is likely to have a positive effect on society. Because ethics and social responsibility programs can be profitable as well, an increasing number of companies are incorporating them into their overall strategic market planning.

Without compliance programs and uniform standards and policies regarding conduct, it is hard for a company's employees to determine what conduct is acceptable within the company. In the absence of such programs and standards, employees generally will make decisions based on their observations of how their peers and superiors behave. To improve ethics, many organizations have developed **codes of conduct** (also called *codes of ethics*) consisting of formalized rules and standards that describe what the company expects of its employees. The

codes of conduct

Formalized rules and standards that describe what the company expects of its employees

New York Stock Exchange now requires every member corporation to have a formal code of conduct. Codes of conduct promote ethical behavior by reducing opportunities for unethical behavior; employees know both what is expected of them and what kind of punishment they face if they violate the rules. Such codes are important in preventing misconduct within the organization. Effective content, the frequency of communication regarding the code, the quality of communication, and the incorporation of the code into the organization by senior and local management can result in less instances of observed unethical behavior.⁷⁴ Codes help marketers deal with ethical issues or dilemmas that develop in daily operations by prescribing or limiting specific activities. Codes of conduct often include general ethical values such as honesty and integrity, general legal compliance, discreditable or harmful acts, and obligations related to social values, as well as more marketing-specific issues such as confidentiality, responsibilities to employers and clients, obligations to the profession, independence and objectivity, and marketing-specific legal and technical compliance issues.⁷⁵

It is important that companies consistently enforce standards and impose penalties or punishment on those who violate codes of conduct. Barrett-Jackson, an auction company specializing in classic and collector cars, recognizes the importance of ethical conduct to its customers. Ethical standards are such a significant part of the company's culture that it recently hired a top auditing firm to conduct an independent examination of its practices. To create an effective compliance program and to stave off the types of misconduct found in similar organizations, Barrett-Jackson constantly reviews and updates its policies.⁷⁶ Table 3.4 lists some commonly observed types of misconduct as reported in the National Business Ethics Survey (NBES). To succeed, a compliance program must be viewed as part of the overall marketing strategy implementation. If ethics officers and other executives are not committed to the principles and initiatives of marketing ethics and social responsibility, the program's effectiveness will be in question.

TABLE 3.4 Observed Misconduct

Behaviors	Employees Observing It (%)
Company resource abuse	23%
Abusive behavior	22
Lying to employees	19
E-mail or Internet abuse	18
Conflicts of interest	16
Discrimination	14
Lying to outside stakeholders	12
Employee benefit violations	11
Health or safety violations	11
Employee privacy breach	10
Improper hiring practices	10
Falsifying time or expenses	10

Source: From Ethics Resource Center, 2009 National Business Ethics Survey: Ethics in the Recession (Washington, DC: Ethics Resource Center, 2009), p. 33. © Ethics Resource Center, Washington, DC.

So-called “free goods”
such as sunshine and
fresh air may be of
more real worth than
most economic goods.

—Walter J. Kohler, 1934

Bold. Conservation.



SaveWaterAmerica.com

Incorporating Social Responsibility

Kohler, as a WaterSense Partner, implements the Save Water America program, through which it contributes \$1 in water-saving products to Habitat for Humanity every time a consumer completes an online quiz established to spread awareness.

Increasing evidence indicates that being ethical and socially responsible pays off. Social responsibility has a synergistic effect on market orientation that leads to improved business performance.⁷⁷ More firms are moving beyond market orientation that focuses on customers and competitors and are adopting a stakeholder orientation that focuses on all constituents. Such a relationship implies that being ethically and socially concerned is consistent with meeting the demands of customers and other stakeholders. By encouraging their employees to understand their markets, companies can help them to respond to stakeholders' demands.⁷⁸

There is a direct association between corporate social responsibility and customer satisfaction, profits, and market value.⁷⁹ In a survey of consumers, 80 percent indicated that when quality and price are similar among competitors, they would be more likely to buy from the company associated with a particular cause. In addition, young adults aged 18 to 25 are especially likely to take a company's citizenship efforts into account when making not only purchasing but also employment and investment decisions.⁸⁰

Thus, recognition is growing that the long-term value of conducting business in a socially responsible manner far outweighs short-term costs.⁸¹ Companies that fail to develop strategies and programs to incorporate ethics and social responsibility into their organizational culture may pay the price with poor marketing performance and the potential costs of legal violations, civil litigation, and damaging publicity when questionable activities are made public.

CHAPTER REVIEW

1 Recognize the importance of environmental scanning and analysis.

Environmental scanning is the process of collecting information about the forces in the marketing environment; environmental analysis is the process of assessing and interpreting the information gathered through environmental scanning. This information helps marketing managers to minimize uncertainty and threats and to capitalize on opportunities presented by environmental factors.

2 Explore the effects of competitive, economic, political, legal and regulatory, technological, and sociocultural factors on marketing strategies.

Marketers need to monitor the actions of competitors to determine what strategies competitors are using and how those strategies affect their own. Economic conditions influence consumers' buying power and willingness to spend. Legislation is enacted, legal decisions are interpreted by courts, and regulatory agencies are created and operated by elected or appointed officials. Marketers also can choose to regulate themselves. Technology determines how members of society satisfy needs and wants and helps to improve the quality of life. Sociocultural forces are the influences in a society that bring about changes in attitudes, beliefs,

norms, customs, and lifestyles. Changes in any of these forces can create opportunities and threats for marketers.

3 Understand the concept and dimensions of social responsibility.

Social responsibility refers to an organization's obligation to maximize its positive impact and minimize its negative impact on society. At the most basic level, companies have an economic responsibility to be profitable so that they can provide a return on investment to their stockholders, create jobs for the community, and contribute goods and services to the economy. Marketers are also expected to obey laws and regulations. Marketing ethics refers to principles and standards that define acceptable conduct in marketing as determined by various stakeholders. Philanthropic responsibilities go beyond marketing ethics; they are not required of a company but promote human welfare or goodwill.

4 Differentiate between ethics and social responsibility.

Whereas social responsibility is achieved by balancing the interests of all stakeholders in an organization, ethics relates to acceptable standards of conduct in making individual and group decisions.

ONLINE RESOURCES

Please visit the student website at www.cengagebrain.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

environmental scanning 56
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 brand competitors 58
 product competitors 58
 generic competitors 58
 total budget competitors 58
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pure competition 59
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ISSUES FOR DISCUSSION AND REVIEW

1. Why are environmental scanning and analysis important to marketers?
2. What are four types of competition? Which is most important to marketers?
3. Define *income*, *disposable income*, and *discretionary income*. How does each type of income affect consumer buying power?
4. What factors influence a buyer's willingness to spend?
5. What are the goals of the Federal Trade Commission? List the ways in which the FTC affects marketing activities. Do you think that a single regulatory agency should have such broad jurisdiction over so many marketing practices? Why or why not?
6. Name several nongovernmental regulatory forces. Do you believe that self-regulation is more or less effective than governmental regulatory agencies? Why?
7. Discuss the impact of technology on marketing activities.
8. In what ways are cultural values changing? How are marketers responding to these changes?
9. What is social responsibility, and why is it important?
10. What are four dimensions of social responsibility? What impact do they have on marketing decisions?
11. What are some major social responsibility issues? Give an example of each.
12. Describe consumerism. Analyze some active consumer forces in your area.
13. What is the difference between ethics and social responsibility?

MARKETING APPLICATIONS

1. Assume that you are opening *one* of the following retail businesses. Identify publications at the library or online that provide information about the environmental forces likely to affect the business. Briefly summarize the information each provides.
 - a. Convenience store
 - b. Women's clothing store
 - c. Grocery store
 - d. Fast-food restaurant
 - e. Furniture store
2. Identify at least one technological advancement and one sociocultural change that have affected you as a consumer. Explain the impact of each on your needs as a customer.
3. Identify an organization in your community that has a reputation for being ethical and socially responsible. What activities account for this image? Is the company successful? Why or why not?

ONLINE EXERCISE

4. Business for Social Responsibility (BSR) is a non-profit organization for companies desiring to operate responsibly and demonstrate respect for ethical values, people, communities, and the natural environment. Founded in 1992, BSR offers members practical information, research, educational programs, and technical assistance as well as the opportunity to network with peers on current social responsibility issues. Visit www.bsr.org.
 - a. What types of businesses join BSR, and why?
 - b. Describe the services available to member companies. How can these services help companies improve their performances?
 - c. Peruse the "BSR Conference—Overview" tab, located at the top of the home page. What are some advantages to attending the BSR conference and listening to industry leaders and experts in corporate social responsibility?

DEVELOPING YOUR MARKETING PLAN

A marketing strategy is dynamic. Companies must continually monitor the marketing environment not only to create their marketing strategy, but also to revise it if necessary. Information about various forces in the marketplace is collected, analyzed, and used as a foundation for several marketing plan decisions. The following questions will help you to understand how the information in this chapter contributes to the development of your marketing plan:

1. Describe the current competitive market for your product. Can you identify the number of brands or market share that they hold? Expand your analysis to include other products that are similar or could be substituted for yours.
2. Using the business cycle pattern, in which of the four stages is the current state of the economy? Can

you identify any changes in consumer buying power that would affect the sale and use of your product?

3. Referring to Tables 3.2 and 3.3, do you recognize any laws or regulatory agencies that would have jurisdiction over your type of product?
4. Conduct a brief technology assessment, determining the impact that technology has on your product, its sale, or use.
5. Discuss how your product could be affected by changes in social attitudes, demographic characteristics, or lifestyles.

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

THE PUTTING LOT: BUILDING A MINIATURE GOLF COURSE TO SUPPORT SUSTAINABILITY

The Putting Lot is a unique miniature golf course located in Bushwick, a former industrial neighborhood in Brooklyn. The course opened in the summer of 2009 as a temporary installation in one of the neighborhood's many empty lots. Co-organizers Gabriel Fries-Briggs and Rachel Himmelfarb created the lot to preserve Bushwick's local culture while providing a place for residents to learn and have fun.

The idea to create a miniature golf course in the middle of the city came from the creators' own childhood experiences. One creator says, "A lot of us are not from the city and have very fond childhood memories of playing mini golf. There is a lack of affordable recreational activities that are appropriate for all ages in New York, so building a mini golf course in the city seemed like a great idea." The creators also wanted a space that would help anchor the neighborhood as more and more established families left the area. As neighborhoods become more concerned about sustainability, the land utilization and construction provided an opportunity to demonstrate sustainability. The organizers of the Putting Lot recognized that in the buying decision process, situational influences such as time and location would encourage local residents to visit the mini golf course. The

physical and social surroundings are especially important in a decision to engage in recreational activities.

The Putting Lot was also designed to help people to think about the possibilities of vacant spaces in neighborhoods that support sustainability. Bushwick is the 21st emptiest neighborhood in New York City. The Putting Lot's creators believe filling the empty spaces will help the neighborhood transition from an industrial district to a residential area. According to the Putting Lot's creators, "Vacant spaces are often places where developers, neighbors, and city workers come into conflict, but they can also be rich places for residents to imagine what they would like to see in the city." This is an attempt to change attitudes about the neighborhood and the possibilities for vacant land to be used in a responsible manner.

Despite the large number of vacant spaces in Bushwick, the Putting Lot team had a difficult time finding a space to put their mini golf course. They say, "Even though the zoning of the neighborhood specifically permits our use as of right, most landlords did not want to deviate from standard, most common land-uses. In the end, we did find one who has been very supportive and is excited about the project and the possibilities it brings to the

neighborhood." They recognized that family influences would be important in supporting the Putting Lot because once children enjoyed playing they could have a very supportive impact on decisions to use the course.

The Putting Lot focuses on sustainability, using recycled and reclaimed materials in its design. Additionally, the designs cannot be permanent or damage the land in any way. Before the course opened, the creators asked for design submissions for the holes. The winners received \$500 to cover the cost of materials for their hole. One hole includes scrap-car doors and was inspired by the hazards of city cycling. Other holes include a water feature made with recycled plastic bottles and an obstacle course composed of boxes and milk crates. These hazards of the city represent an attempt to relate to the local culture and changes in attitudes toward sustainability.

Additionally, Fries-Briggs and Himmelfarb searched for additional materials online and throughout New York City. Examples of materials used to create the Putting Lot include wooden shipping pallets from a local factory and old sails for the awnings. The golf equipment was acquired from a miniature golf course in Canada that was going out of business. The emphasis on developing a mini golf course based on sustainability appealed to neighborhood residents, who want

to exhibit a sustainable lifestyle through their activities, interests, and opinions.

The Putting Lot became an important space for the Bushwick neighborhood. The Putting Lot's organizers say, "Through the transformation of the lot, the construction of the holes, and a series of events held in the public area, we hope to provide a forum for discussing urban sustainability in a new context." Therefore, the organizers were involved in socializing neighborhood members to patronize the course and communicate with others positively in their reference groups. They hoped that some neighborhood members would become opinion leaders and influence others to become involved with the Putting Lot as a role model for community sustainability.⁸²

QUESTIONS FOR DISCUSSION

1. How did the creators of the Putting Lot incorporate sustainability into their business concept?
2. How do you think the creators of the Putting Lot used marketing concepts to emphasize the advantages of a miniature golf course based on sustainability?
3. Based on the successful creation of the Putting Lot, can you think of other similar products that could be developed around the concept of sustainability?

PART 2

MARKETING RESEARCH AND TARGET MARKETS

Part 2 examines how marketers use information and technology to better understand and reach customers. Chapter 4 provides a foundation for analyzing buyers through a discussion of marketing information systems and the basic steps in the marketing research process. Understanding elements that affect buying decisions enables marketers to better analyze customers' needs and to evaluate how specific marketing strategies can satisfy those needs. Chapter 5 deals with selecting and analyzing target markets, which is one of the major steps in marketing strategy development.



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CHAPTER 4

Marketing Research and Information Systems

OBJECTIVES:

- 1 Define marketing research and understand its importance.
- 2 Describe the basic steps in conducting marketing research.
- 3 Explore the fundamental methods of gathering data for marketing research.
- 4 Describe the nature and roles of tools such as databases, decision support systems, and the Internet in marketing decision making.
- 5 Identify key ethical and international considerations in marketing research.



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MARKETING INSIGHTS

At Threadless, Customers Design the Product

Loyal customers are also loyal designers at Threadless, a fast-growing T-shirt company based in Chicago. The idea for Threadless grew out of Jake Nickell's hobby of creating digital designs for T-shirts. In 2000, after one of his designs won a contest, 20-year-old Nickell teamed up with his friend Jacob DeHart to start a new business. Their unique marketing twist was that the T-shirts they sold would feature digital designs submitted and selected by customers through online voting.

The first contest, which offered a grand prize of two free T-shirts, drew dozens of entries. Threadless printed and sold 24 copies each of the five top vote-getters. Soon the company began paying \$100 for each winning design, an amount it gradually raised above \$2,000. By 2002, Threadless had 10,000 customers voting on designs and was selling \$100,000 worth of T-shirts. A decade after its founding, the company's annual sales have skyrocketed beyond \$30 million, and customers submit 300 designs per day. By marketing only designs that customers approve with their votes, Threadless keeps costs down and profit margins high. Sooner or later, all of its T-shirts sell out, and customers can click to vote for reprinting sold-out designs.

As cofounder of Threadless, Nickell can't imagine doing business any other way: "Why wouldn't you want to make the products that people want you to make?" he asks. By paying close attention to its customers' preferences, Threadless now sells 100,000 T-shirts every month, and customers are loyal because they know that their design ideas and votes really count.¹

Marketing research, like that conducted at Threadless, enables marketers to implement the marketing concept by helping them acquire information about whether and how their goods and services satisfy the desires of target market customers. When used effectively, such information facilitates relationship marketing by helping marketers focus their efforts on meeting and even anticipating the needs of their customers. Marketing research and information systems that can provide practical and objective information to help firms develop and implement marketing strategies are therefore essential to effective marketing.

In this chapter, we focus on how marketers gather information needed to make marketing decisions. First, we define marketing research and examine the individual steps of the marketing research process, including various methods of collecting data. Next, we look at how technology aids in collecting, organizing, and interpreting marketing research data. Finally, we consider ethical and international issues in marketing research.

The Importance of Marketing Research

Marketing research is the systematic design, collection, interpretation, and reporting of information to help marketers solve specific marketing problems or take advantage of marketing opportunities. As the word *research* implies, it is a process for gathering information that is not currently available to decision makers. The purpose of marketing research is to inform an organization about customers' needs and desires, marketing opportunities for particular goods and services, and changing attitudes and purchase patterns of customers. Market information increases the marketer's ability to respond to customer needs, which leads to improved organizational performance. Detecting shifts in buyers' behaviors and attitudes helps companies stay in touch with the ever-changing marketplace. Organic food marketers, for example, would be interested to know that demand for high-end organic food brands is

marketing research

The systematic design, collection, interpretation, and reporting of information to help marketers solve specific marketing problems or take advantage of marketing opportunities

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The Importance of Marketing Research

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declining, while demand for private-label organic brands, such as those sold by Albertsons, Trader Joe's, and Whole Foods, is growing. In fact, consumer confidence in private-label organic brands has boosted confidence in private-label brands overall.² Strategic planning requires marketing research to facilitate the process of assessing such opportunities or threats.

Marketing research can help a firm better understand market opportunities, ascertain the potential for success for new products, and determine the feasibility of a particular marketing strategy. Marketing research has consistently shown Google to be at the top of the pack in terms of market share and market valuation among competing search engine providers. However, Microsoft and Yahoo! have conducted marketing research to understand consumers' habits and needs in order to develop rival products that are now challenging Google as never before. As more consumers purchase smartphones, Microsoft has been able to gain inroads against Google by offering its "decision engine" Bing, which Microsoft claims is far better than Google at performing searches and delivering to consumers the information they seek.³

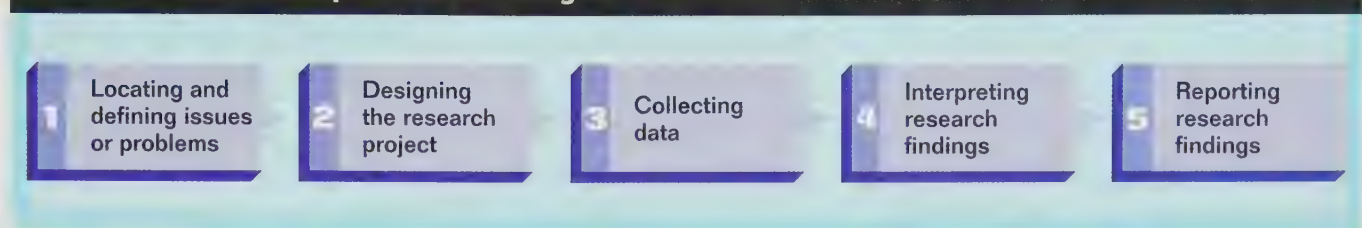
Many types of organizations use marketing research to help them develop marketing mixes to match the needs of customers. Supermarkets, for example, have learned from marketing research that roughly half of all Americans prefer to have their dinners ready in 15 to 30 minutes. Such information highlights a tremendous opportunity for supermarkets to offer high-quality "heat-and-eat" meals to satisfy this growing segment of the food market. Political candidates also depend on marketing research to understand the scope of issues their constituents view as important. National political candidates may spend millions surveying voters to better understand issues and craft their images accordingly.

Changes in the economy, especially the most recent recession, have dramatically changed marketers' decision-making strategies. Increasingly, businesses need speed and agility to survive and to react quickly to changing consumer behavior. Marketing research has shifted focus on smaller studies like test marketing, small-scale surveys, and short-range forecasting in order to learn about changing dynamics in the marketplace. However, large, high-value research projects remain necessary for long-term success. While it is acceptable to conduct studies that take six months or more, many companies need real-time information to help them make good decisions. Firms may benefit from historical or secondary data, but due to changes in the economy and buyer behavior, such data are not as useful in today's decision-making environment. As we discuss in this chapter online research services are helping to supplement and integrate findings in order to help companies make tactical and strategic decisions. In the future, the marketing researcher will need to be able to identify the most efficient and effective ways of gathering information.⁴

The real value of marketing research is measured by improvements in a marketer's ability to make decisions. For example, Coach, a high-end handbag company, invests \$5 million per year on customer research and conducts regular customer surveys. During the most recent recession, Coach made two important discoveries using its research tools. The company learned that high-end shoppers were spending less and were less willing to purchase the average Coach bag than before. More importantly, Coach also discovered that its customers still wanted to occasionally purchase specialty items that made them feel happy. This inspired the company to create a new, less expensive, fun-focused bag line called Poppy.⁵ Marketers should treat information the same way as other resources, and they must weigh the costs and benefits of obtaining information. Information should be considered worthwhile if it results in marketing activities that better satisfy the firm's target customers, lead to increased sales and profits, or help the firm achieve some other goal.

The Marketing Research Process

To maintain the control needed to obtain accurate information, marketers approach marketing research as a process with logical steps: (1) locating and defining problems or issues, (2) designing the research project, (3) collecting data, (4) interpreting research findings, and

FIGURE 4.1 The Five Steps of the Marketing Research Process

(5) reporting research findings (see Figure 4.1). These steps should be viewed as an overall approach to conducting research rather than as a rigid set of rules to be followed in each project. In planning research projects, marketers must consider each step carefully and determine how they can best adapt the steps to resolve the particular issues at hand.

LOCATING AND DEFINING PROBLEMS OR RESEARCH ISSUES

The first step in launching a research study is problem or issue definition, which focuses on uncovering the nature and boundaries of a situation or question related to marketing strategy or implementation. The first sign of a problem is typically a departure from some normal function, such as the failure to attain objectives. If a corporation's objective is a 12 percent sales increase and the current marketing strategy resulted in a 6 percent increase, this discrepancy should be analyzed to help guide future marketing strategies. Declining sales, increasing expenses, and decreasing profits also signal problems. Customer relationship management (CRM) is frequently based on analysis of existing customers. Armed with this knowledge, a firm could define a problem as finding a way to adjust for biases stemming from existing customers when gathering data or to develop methods for gathering information to help find new customers. Conversely, when an organization experiences a dramatic rise in sales or some other positive event, it may conduct marketing research to discover the reasons and maximize the opportunities stemming from them.

Marketing research often focuses on identifying and defining market opportunities or changes in the environment. When a firm discovers a market opportunity, it may need to conduct research to understand the situation more precisely so it can craft an appropriate marketing strategy. For instance, AT&T's mobile phone service has a bad reputation for quality, particularly as it applies to the popular iPhone. To help combat increasing customer dissatisfaction, AT&T has created a free "Mark the Spot" app that allows iPhone users to identify problem areas as they are experiencing difficulty. AT&T is using the data to improve its service, thereby retaining more customers.⁶

To pin down the specific boundaries of a problem or an issue through research, marketers must define the nature and scope of the situation in a way that requires probing beneath the superficial symptoms. The interaction between the marketing manager and the marketing researcher

KEEP CLIMBING
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BUILDING A BETTER AIRLINE, NOT JUST A BIGGER ONE.

With airline mergers constantly in the news (ours included), it's easy to forget that innovation isn't enough to lead this industry. No one who flies is waiting for a bigger airline, they're waiting for one that's committed to making flying better. To that end, we've taken a look at every part of the experience - from buying a ticket to getting your bags - and dedicated ourselves to constantly improving it. That's an ambitious goal, especially at a time when air travel is under pressure from all sides, but the challenges of this industry have always been its fuel: that was true at Kitty Hawk and it's true today. So while we're proud to offer over 5,500 flights a day, we won't rest until each one of them is as convenient, comfortable, and hassle-free as possible.

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Delta Airlines, Inc.

Defining the Problem

When Delta merged with Northwest, concerns over company image resulted in ads promoting size and quality of service. These concerns about image were discovered through marketing research.

should yield a clear definition of the research needed. Researchers and decision makers should remain in the problem or issue definition stage until they have determined precisely what they want from marketing research and how they will use it. Deciding how to refine a broad, indefinite problem or issue into a precise, researchable statement is a prerequisite for the next step in the research process.

DESIGNING THE RESEARCH PROJECT

Once the problem or issue has been defined, the next step is to create a **research design**, an overall plan for obtaining the information needed to address it. This step requires formulating a hypothesis and determining what type of research is most appropriate for testing the hypothesis to ensure the results are reliable and valid.

Developing a Hypothesis

The objective statement of a marketing research project should include a hypothesis based on both previous research and expected research findings. A **hypothesis** is an informed guess or assumption about a certain problem or set of circumstances. It is based on all the insight and knowledge available about the problem or circumstances from previous research studies and other sources. As information is gathered, the researcher can test the hypothesis. For example, a food marketer such as H.J. Heinz might propose the hypothesis that children today have considerable influence on their families' buying decisions regarding ketchup and other grocery products. A marketing researcher would then gather data, perhaps through surveys of children and their parents, and draw conclusions as to whether the hypothesis is correct. Movie theater, sports arena, and concert venue owners who may be wondering why sales are down have hypothesized that consumers are staying home more because of rising event prices, widespread availability of home theater systems and broadband Internet access, and families' increasingly busy schedules. Marketers could test this hypothesis by manipulating prices or offering strong incentives for consumers to return. Sometimes, several hypotheses are developed during an actual research project; the hypotheses that are accepted or rejected become the study's chief conclusions.

Types of Research

The nature and type of research vary based on the research design and the hypotheses under investigation. Marketers may elect to conduct either exploratory research or conclusive research. Although each has a distinct purpose, the major differences between them are formalization and flexibility rather than the specific research methods used. Table 4.1 summarizes the differences.

EXPLORATORY RESEARCH When marketers need more information about a problem or want to make a tentative hypothesis more specific, they may conduct **exploratory research**. The main purpose of exploratory research is to better understand a problem or situation and/or to help identify additional data needs or decision alternatives.⁷ Consider that until recently, there was no research available to help marketers understand how consumers perceive the terms *clearance* versus *sale* in describing a discounted price event. An exploratory study asked one group of 80 consumers to write down their thoughts about a store window sign that said "sale" and another group of 80 consumers to write about a store window sign that read "clearance." The results revealed that consumers expected deeper discounts when the term *clearance* was used, and they expected the quality of the clearance products to be lower than that of products on sale.⁸ This exploratory research helped marketers better understand how consumers view these terms and opened up the opportunity for additional research hypotheses about decision alternatives for retail pricing.

research design

An overall plan for obtaining the information needed to address a research problem or issue

hypothesis

An informed guess or assumption about a certain problem or set of circumstances

exploratory research

Research conducted to gather more information about a problem or to make a tentative hypothesis more specific

TABLE 4.1 Differences between Exploratory and Conclusive Research

Research Project Components	Exploratory Research	Conclusive Research
Research purpose	General: to generate insights about a situation	Specific: to verify insights and aid in selecting a course of action
Data needs	Vague	Clear
Data sources	Ill-defined	Well-defined
Data collection form	Open-ended, rough	Usually structured
Sample	Relatively small; subjectively selected to maximize generalization of insights	Relatively large; objectively selected to permit generalization of findings
Data collection	Flexible; no set procedure	Rigid; well-laid-out procedure
Data analysis	Informal; typically nonquantitative	Formal; typically quantitative
Inferences/recommendations	More tentative than final	More final than tentative

Source: A. Parasuraman. *Marketing Research*, Second Edition. © 2007 South-Western, a part of Cengage Learning, Inc. Reproduced by permission. www.cengage.com/permissions

CONCLUSIVE RESEARCH **Conclusive research** is designed to verify insights through an objective procedure to help marketers make decisions. It is used when the marketer has one or more alternatives in mind and needs assistance in the final stages of decision making. Consider exploratory research that has revealed that the terms *clearance* and *sale* send different signals to consumers. To make a decision about how to use this information, marketers would benefit from a well-defined and structured research project that will help them decide which approach is best for a specific set of products and target consumers. The typically quantitative study should be specific in selecting a course of action and using methods that can be verified. Two such types of conclusive research are descriptive research and experimental research.

If marketers need to understand the characteristics of certain phenomena to solve a particular problem, **descriptive research** can aid them. Descriptive studies may range from general surveys of customers' educations, occupations, or ages to specifics on how often teenagers consume sports drinks or how often customers buy new pairs of athletic shoes. For example, if Nike and Reebok want to target more young women, they might ask 15- to 35-year-old females how often they work out, how frequently they wear athletic shoes for casual use, and how many pairs of athletic shoes they buy in a year. Such descriptive research can be used to develop specific marketing strategies for the athletic-shoe market. Descriptive studies generally demand much prior knowledge and assume that the problem or issue is clearly defined. Some descriptive studies require statistical analysis and predictive tools. The marketer's major task is to choose adequate methods for collecting and measuring data.

Descriptive research is limited in providing evidence necessary to make causal inferences (i.e., that variable *X* causes a variable *Y*). **Experimental research** allows marketers to make causal deductions about relationships. Such experimentation requires that an independent variable (one not influenced by or dependent on other variables) be manipulated and the resulting changes in a dependent variable (one contingent on, or restricted to, one value or set of values assumed by the independent variable) be measured. For instance, when Coca-Cola introduced Dasani flavored waters, managers needed to estimate sales at various potential price points. In some markets, Dasani was introduced at \$6.99 per six-pack. By holding

conclusive research

Research designed to verify insights through objective procedures and to help marketers in making decisions

descriptive research

Research conducted to clarify the characteristics of certain phenomena to solve a particular problem

experimental research

Research that allows marketers to make causal inferences about relationships

reliability

A condition that exists when a research technique produces almost identical results in repeated trials.

validity

A condition that exists when a research method measures what it is supposed to measure.

primary data

Data observed and recorded or collected directly from respondents.

secondary data

Data compiled both inside and outside the organization for some purpose other than the current investigation.

variables such as advertising and shelf position constant, Coca-Cola could manipulate the price variable to study its effect on sales. If sales increased 40 percent when the price was reduced by \$2, then managers could make an informed decision about the effect of price on sales. Coca-Cola could also use experimental research to manipulate other variables such as advertising or in-store shelf position to determine their effect on sales. Manipulation of the causal variable and control of other variables are what make experimental research unique. As a result, they can provide much stronger evidence of cause and effect than data collected through descriptive research.

Research Reliability and Validity

In designing research, marketing researchers must ensure that research techniques are both reliable and valid. A research technique has **reliability** if it produces almost identical results in repeated trials. However, a reliable technique is not necessarily valid. To have **validity**, the research method must measure what it is supposed to measure, not something else. For example, although a group of customers may express the same level of satisfaction based on a rating scale, as individuals they may not exhibit the same repurchase behavior because of different personal characteristics. If the purpose of rating satisfaction was to estimate potential repurchase behavior, this result may cause the researcher to question the validity of the satisfaction scale.⁹ A study to measure the effect of advertising on sales would be valid if advertising could be isolated from other factors or from variables that affect sales. The study would be reliable if replications of it produced the same results.

COLLECTING DATA

The next step in the marketing research process is collecting data to help prove (or disprove) the research hypothesis. The research design must specify what types of data to collect and how they will be collected.

Types of Data

Marketing researchers have two types of data at their disposal. **Primary data** are observed and recorded or collected directly from respondents. This type of data must be gathered by observing phenomena or surveying people of interest. **Secondary data** are compiled both inside and outside the organization for some purpose other than the current investigation. Secondary data include general reports supplied to an enterprise by various data services and internal and online databases. Such reports might concern market share, retail inventory levels, and customers' buying behavior. Commonly, secondary data are already available in private or public reports or have been collected and stored by the organization itself. Due to the opportunity to obtain data via the Internet, more than half of all marketing research now comes from secondary sources.

Sources of Secondary Data

Marketers often begin the data-collection phase of the marketing research process by gathering secondary data. They may use available reports and other information from both internal and external sources to study a marketing problem.

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Collecting Data

Toluna assists clients in collecting primary data to gain insights into customer needs and behaviors.

Internal sources of secondary data can contribute tremendously to research. An organization's own database may contain information about past marketing activities, such as sales records and research reports, which can be used to test hypotheses and pinpoint problems. From sales reports, for example, a firm may be able to determine not only which product sold best at certain times of the year but also which colors and sizes customers preferred. Such information may have been gathered using customer relationship management tools for marketing, management, or financial purposes.

Procter & Gamble launched an online store to sell key brands in order to obtain data on consumer buying habits. Sales data can be used to determine trends in the purchase of certain brands, which can be used to formulate hypotheses or to uncover marketing opportunities. Additional secondary data are available from large retailers like Walmart, which shares some of its sales data with Procter & Gamble.¹⁰

Accounting records are also an excellent source of data but, surprisingly, are often overlooked. The large volume of data an accounting department collects does not automatically flow to other departments. As a result, detailed information about costs, sales, customer accounts, or profits by product category may not be easily accessible to the marketing area. This condition develops particularly in organizations that do not store marketing information on a systematic basis. A third source of internal secondary data is competitive information gathered by the sales force.

External sources of secondary data include trade associations, periodicals, government publications, unpublished sources, and online databases. Trade associations such as the American Marketing Association offer guides and directories that are full of information. Periodicals such as *Bloomberg Businessweek*, *The Wall Street Journal*, *Sales & Marketing Management*, *Advertising Age*, *Marketing Research*, and *Industrial Marketing* publish general information that can help marketers define problems and develop hypotheses. *Survey of Buying Power*, an annual supplement to *Sales & Marketing Management*, contains sales data for major industries on a county-by-county basis. Many marketers also consult federal government publications such as the *Statistical Abstract of the United States*, the *Census of Business*, the *Census of Agriculture*, and the *Census of Population*; most of these government publications are available online. Although the government still conducts its primary census every 10 years, it also conducts the American Community Survey, an ongoing survey sent to population samples on a regular basis.¹¹ This provides marketers with a more up-to-date demographic picture of the nation's population every year. A company might use survey census data to determine, for example, whether or not to construct a shopping mall in a specific area.¹²

In addition, companies may subscribe to services, such as ACNielsen or Information Resources Inc. (IRI), that track retail sales and other information. For example, IRI tracks consumer purchases using in-store, scanner-based technology. Marketing firms can purchase information from IRI about a product category, such as frozen orange juice, as secondary data.¹³ Small businesses may be unable to afford such services, but they can still find a wealth of information through industry publications and trade associations.

Companies such as TiVo are challenging services like ACNielsen by offering year-round second-by-second information about the show and advertising viewing habits of consumers who own the company's DVRs. The data are anonymous and are recorded by the TV viewers' boxes. ACNielsen, on the other hand, only measures local program viewing for four months a year. However, TiVo's data gathering is limited. Its privacy-protection policies prevent the company from collecting information that Nielsen can provide, such as demographic breakdowns and the number of people watching each TV set. On the other hand, TiVo information can aid local TV news programs in their programming decisions by helping them choose when to air sports and weather and how much time to devote to each segment.¹⁴

The Internet can be especially useful to marketing researchers. Search engines such as Google can help marketers locate many types of secondary data or to research topics of interest. Of course, companies can mine their own websites for useful information by using CRM tools. Amazon.com, for example, has built a relationship with its customers by tracking the types of books, music, and other products they purchase. Each time a customer logs on to the website, the company can offer recommendations based on the customer's previous purchases. Such a marketing system helps the company track the changing desires and buying habits of its most valued customers. Furthermore, marketing researchers are increasingly monitoring blogs to discover what consumers are saying about their products—both positive and negative. Some, including yogurt maker Stonyfield Farms, have even established their own blogs as a way to monitor consumer dialog on issues of their choice. There are many reasons people go online, which can make the job of using the Internet complicated for marketers. Table 4.2 lists the main reasons people go online, and Table 4.3 summarizes the external sources of secondary data, excluding syndicated services.

TABLE 4.2 Top 10 Online Pursuits by Generation

Rank	Gen Y	Gen X	Younger Boomers	Older Boomers	Silent Generation	G.I. Generation
1	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail
2	Search	Search	Search	Search	Search	Search
3	Research product	Research product	Research product	Get health info	Research product	Get health info
4	Get news	Get health info	Get health info	Research product	Get health info	Make travel reservations
5	Watch video	Buy something	Get news	Buy something	Make travel reservations	Research product
6	Buy something	Get news	Make travel reservations	Get news	Visit government site	Buy something
7	Get health info	Make travel reservations	Buy something	Make travel reservations	Buy something	Get news
8	Visit social networking site (SNS)	Bank	Visit government site	Visit government site	Get news	Visit government site
9	Make travel reservations	Visit government site	Research for job	Bank	Bank	Get religious info
10	Research for job	Research for job	Bank	Research for job	Research for job	Bank

Source: "Generations Online Charts," Pew Research Center by Sydney Jones and Susannah Fox, January 28, 2009, www.pewinternet.org/Presentations/2009/Generations-Online-in-2009.aspx.

TABLE 4.3 Sources of Secondary Information

Government Sources	
Economic census	www.census.gov/econ/census07/
Export.gov—country and industry market research	www.export.gov/mrktresearch/index.asp
National Technical Information Services	www.ntis.gov/
Strategis—Canadian trade	www.strategis.ic.gc.ca/engdoc/main.html
Trade associations and shows	
American Society of Association Executives	www.asaecenter.org/
Directory of Associations	www.marketingsource.com/associations/
Trade Show News Network	www.tsnn.com/
Magazines, newspapers, video, and audio news programming	
Blinkx	www.blinkx.com/
FindArticles.com	www.findarticles.com/p/articles/tn_bus/?tag=trunk
Google Video Search	www.video.google.com/
Google News Directory	www.google.com/Top/News/
Yahoo! Video Search	www.video.search.yahoo.com/
Corporate information	
Annual Report Service	www.annualreportservice.com/
Bitpipe	www.bitpipe.com/
Business Wire—press releases	www.businesswire.com/
Hoover's Online	www.hoovers.com/
Open Directory Project	www.dmoz.org/
PR Newswire—press releases	www.prnewswire.com

Source: Adapted from "Data Collection: Low-Cost Secondary Research," *KnowThis.com*, www.knowthis.com/principles-of-marketing-tutorials/data-collection-low-cost-secondary-research/ (accessed February 17, 2011).

Methods of Collecting Primary Data

Collecting primary data is a lengthier, more expensive, and more complex process than collecting secondary data. To gather primary data, researchers use sampling procedures, survey methods, and observation. These efforts can be handled in-house by the firm's own research department or contracted to a private research firm such as ACNielsen, Information Resources Inc., or IMS International.

SAMPLING Because the time and resources available for research are limited, it is almost impossible to investigate all the members of a target market or other population. A **population**, or "universe," includes all the elements, units, or individuals of interest to

population

All the elements, units, or individuals of interest to researchers for a specific study



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Sampling

uSamp assists clients in creating samples and panels.

sample

A limited number of units chosen to represent the characteristics of a total population

sampling

The process of selecting representative units from a total population

probability sampling

A type of sampling in which every element in the population being studied has a known chance of being selected for study

random sampling

A form of probability sampling in which all units in a population have an equal chance of appearing in the sample, and the various events that can occur have an equal or known chance of taking place

ity of occurring in each position in the sequence. The sequentially numbered elements of a population are sampled randomly by selecting the units whose numbers appear in the table of random numbers.

Another type of probability sampling is **stratified sampling**, in which the population of interest is divided into groups according to a common attribute, and a random sample is then chosen within each group. The stratified sample may reduce some of the error that could occur in a simple random sample. By ensuring that each major group or segment of the population receives its proportionate share of sample units, investigators avoid including too many or too few sample units from each group. Samples are usually stratified when researchers believe there may be variations among different types of respondents. For instance, many political opinion surveys are stratified by gender, race, age, and/or geographic location.

The second type of sampling, **nonprobability sampling**, is more subjective than probability sampling because there is no way to calculate the likelihood that a specific element of the population being studied will be chosen. Quota sampling, for example, is highly judgmental because the final choice of participants is left to the researchers. In **quota sampling**, researchers divide the population into groups and then arbitrarily choose participants from each group. In quota sampling, there are some controls—usually limited to two or three variables, such as age, gender, or race—over the selection of participants. The controls attempt to ensure that representative categories of respondents are interviewed. A study of people who wear eyeglasses, for example, may be conducted by interviewing equal numbers of men and women who wear eyeglasses. Because quota samples are not probability samples, not

researchers for a specific study. Consider a Gallup poll designed to predict the results of a presidential election. All registered voters in the United States would constitute the population. By systematically choosing a limited number of units—a **sample**—to represent the characteristics of a total population, researchers can project the reactions of a total market or market segment. (In the case of the presidential poll, a representative national sample of several thousand registered voters would be selected and surveyed to project the probable voting outcome.) **Sampling** in marketing research, therefore, is the process of selecting representative units from a total population. Sampling techniques allow marketers to predict buying behavior fairly accurately on the basis of the responses from a representative portion of the population of interest. Most types of marketing research employ sampling techniques.

There are two basic types of sampling: probability sampling and nonprobability sampling. With **probability sampling**, every element in the population being studied has a known chance of being selected for study. Random sampling is a form of probability sampling. When marketers employ **random sampling**, all the units in a population have an equal chance of appearing in the sample. The various events that can occur have an equal or known chance of taking place. For example, a specific card in a regulation deck should have a 1 in 52 probability of being drawn at any one time. Sample units are ordinarily chosen by selecting from a table of random numbers statistically generated so that each digit, 0 through 9, will have an equal probability

everyone has an equal chance of being selected, and sampling error therefore cannot be measured statistically. Quota samples are used most often in exploratory studies, when hypotheses are being developed. Often a small quota sample will not be projected to the total population, although the findings may provide valuable insights into a problem. Quota samples are useful when people with some common characteristic are found and questioned about the topic of interest. A probability sample used to study people who are allergic to cats, for example, would be highly inefficient.

SURVEY METHODS Marketing researchers often employ sampling to collect primary data through mail, telephone, online, or personal interview surveys. The results of such surveys are used to describe and analyze buying behavior. The survey method chosen depends on the nature of the problem or issue; the data needed to test the hypothesis; and the resources, such as funding and personnel, available to the researcher. Marketers may employ more than one survey method depending on the goals of the research. Surveys can be quite expensive (Procter & Gamble spends about \$350 million on consumer understanding and conducts more than 15,000 research studies annually), but small businesses can turn to sites such as SurveyMonkey.com¹⁵ and zoomerang.com for inexpensive or even free online surveys. Table 4.4 summarizes and compares the advantages of the various survey methods.

Gathering information through surveys is becoming increasingly difficult because fewer people are willing to participate. Many people believe responding to surveys requires too much scarce personal time, especially as surveys become longer and more detailed. Others have concerns about how much information marketers are gathering and whether their privacy is being invaded. The unethical use of selling techniques disguised as marketing surveys has also led to decreased cooperation. These factors contribute to nonresponse rates for any type of survey.

In a **mail survey**, questionnaires are sent to respondents, who are encouraged to complete and return them. Mail surveys are used most often when the individuals in the sample are spread over a wide area and funds for the survey are limited. A mail survey is less expensive than a telephone or personal interview survey as long as the response rate is high enough to produce reliable results. The main disadvantages of this method are the possibility of a low response rate and of misleading results if respondents differ significantly from the population being sampled. One method of improving response rates involves attaching a brief personal message on a Post-it[®] Note to the survey packet. Response rates to these surveys are higher, and the quality and timeliness of the responses are also improved.¹⁶ As a result of these issues, companies are increasingly moving to Internet surveys and automated telephone surveys.

Premiums or incentives that encourage respondents to return questionnaires have been effective in developing panels of respondents who are interviewed regularly by mail. Such mail panels, selected to represent a target market or market segment, are especially useful in evaluating new products and providing general information about customers, as well as records of their purchases (in the form of purchase diaries). Mail panels and purchase diaries are much more widely used

stratified sampling

A type of probability sampling in which the population is divided into groups with a common attribute and a random sample is chosen within each group

nonprobability sampling

A sampling technique in which there is no way to calculate the likelihood that a specific element of the population being studied will be chosen

quota sampling

A nonprobability sampling technique in which researchers divide the population into groups and then arbitrarily choose participants from each group

mail survey

A research method in which respondents answer a questionnaire sent through the mail



Entrepreneurship in Marketing

SurveyMonkey Facilitates Online Research

In 1999, at the height of the dot-com boom, recent college graduate Ryan Finley founded SurveyMonkey as an online survey firm. He was struck by the growing need for marketing research that could be conducted quickly, conveniently, and at a reasonable cost. He built a website where businesses, nonprofit organizations, and even government agencies could post questionnaires, invite online responses, and easily tabulate the results. Users needed no technical knowledge to get started, and basic surveys could be posted for free. SurveyMonkey made its money by offering more sophisticated research tools at an extra charge.

Thanks to the user-friendly format and the low cost, SurveyMonkey became so popular so quickly that Finley's brother Chris soon joined the firm to help with management duties. Ten years after the company was founded, the brothers sold it to a venture capital group and stayed on to keep the business growing. Today, 25 million people answer SurveyMonkey questionnaires every month.^a

TABLE 4.4 Comparison of the Four Basic Survey Methods

	Mail Surveys	Telephone Surveys	Online Surveys	Personal Interview Surveys
Economy	Potentially lower in cost per interview than telephone or personal surveys if there is an adequate response rate.	Avoids interviewers' travel expenses; less expensive than in-home interviews.	The least expensive method if there is an adequate response rate.	The most expensive survey method; shopping mall and focus-group interviews have lower costs than in-home interviews.
Flexibility	Inflexible; questionnaire must be short and easy for respondents to complete.	Flexible because interviewers can ask probing questions, but observations are impossible.	Less flexible; survey must be easy for online users to receive and return; short, dichotomous, or multiple-choice questions work best.	Most flexible method; respondents can react to visual materials; demographic data are more accurate; in-depth probes are possible.
Interviewer bias	Interviewer bias is eliminated; questionnaires can be returned anonymously.	Some anonymity; may be hard to develop trust in respondents.	Interviewer bias is eliminated, but e-mail address on the return eliminates anonymity.	Interviewers' personal characteristics or inability to maintain objectivity may result in bias.
Sampling and respondents' cooperation	Obtaining a complete mailing list is difficult; nonresponse is a major disadvantage.	Sample limited to respondents with telephones; devices that screen calls, busy signals, and refusals are a problem.	Sample limited to respondents with computer access; the available e-mail address list may not be a representative sample for some purposes.	Not-at-homes are a problem, which may be overcome by focus-group and shopping mall interviewing.

than custom mail surveys, but both panels and purchase diaries have shortcomings. People who take the time to fill out a diary may differ from the general population based on income, education, or behavior, such as the time available for shopping activities. Internet and social networking surveys have also greatly gained in popularity, although they are similarly limited as well—given that not all demographics utilize these media equally.

In a **telephone survey**, an interviewer records respondents' answers to a questionnaire over a phone line. A telephone survey has some advantages over a mail survey. The rate of response is higher because it takes less effort to answer the telephone and talk than to fill out and return a questionnaire. If enough interviewers are available, a telephone survey can be conducted very quickly. Thus, political candidates or organizations that want an immediate reaction to an event may choose this method. In addition, a telephone survey permits interviewers to gain rapport with respondents and ask probing questions. Automated telephone surveys, also known as interactive voice response or "robosurveys," rely on a recorded voice to ask the questions while a computer program records respondents' answers. The primary benefit of automated surveys is the elimination of any bias that might be introduced by a live researcher.

However, only a small proportion of the population likes to participate in telephone surveys. This can significantly limit participation and distort representation in a telephone survey. Moreover, telephone surveys are limited to oral communication; visual aids or observation cannot be included. Interpreters of results must make adjustments for individuals

telephone survey

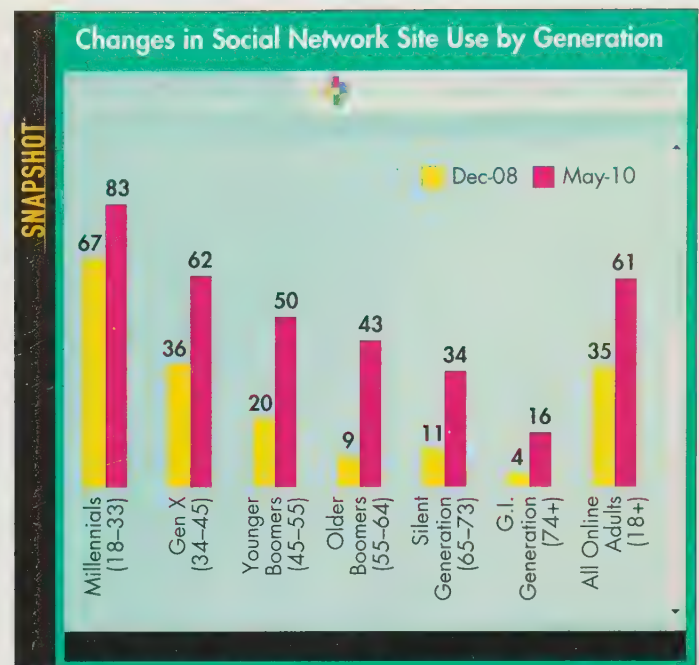
A research method in which respondents' answers to a questionnaire are recorded by an interviewer on the phone

who are not at home or do not have telephones. Many households are excluded from telephone directories by choice (unlisted numbers) or because the residents moved after the directory was published. Potential respondents often use telephone answering machines, voice mail, or caller ID to screen or block calls; additionally, millions have signed up for “Do Not Call Lists.” Moreover, an increasing number of younger Americans are giving up their fixed telephone lines in favor of cellular or wireless phones. These issues have serious implications for the use of telephone samples in conducting surveys.

Online surveys are evolving as an alternative to telephone surveys. In an **online survey**, questionnaires can be transmitted to respondents who have agreed to be contacted and have provided their e-mail addresses. Because e-mail is semi-interactive, recipients can ask for clarification of specific questions or pose questions of their own. The potential advantages of e-mail surveys are quick response and lower cost than traditional mail, telephone, and personal interview surveys if the response rate is adequate. In addition, more firms use their websites to conduct surveys. Online surveys can also use online communities—such as chat rooms, web-based forums, blogs, newsgroups, social networking sites, and research communities—to identify trends in interests and consumption patterns. Movies, consumer electronics, food, and computers are popular topics in many online communities. Indeed, by “listening in” on these ongoing conversations, marketers may be able to identify new-product opportunities and consumer needs. Moreover, this type of online data can be gathered at little incremental cost compared to alternative data sources. Evolving technology and the interactive nature of the Internet allow for considerable flexibility in designing online questionnaires.

Crowdsourcing combines the words *crowd* and *outsourcing* and calls for taking tasks usually performed by a marketer or researcher and outsourcing them to a crowd, or potential market, through an open call. Consider Procter & Gamble, which has used social networking sites to solicit new ideas and suggestions straight from consumers when developing new products. Crowdsourcing is a way for marketers to gather input straight from willing consumers and to actively listen and engage with people’s ideas and evaluations on products. The computer company Dell Inc. has used crowdsourcing to tap into consumer insights and to spur innovations in everything from new products to website design and marketing improvements. Seventy-five percent of respondents to a recent survey indicate that crowdsourcing is an effective way to approach innovations in products and services.¹⁷

Given the growing number of households that have computers with Internet access, marketing research is likely to rely heavily on online surveys and crowdsourcing in the future. Furthermore, as negative attitudes toward telephone surveys render that technique less representative and more expensive, the integration of e-mail and voice mail functions into one computer-based system provides a promising alternative for survey research. E-mail surveys have especially strong potential within organizations whose employees are networked and for associations that publish members’ e-mail addresses. However, there are some ethical issues to consider when using e-mail for marketing research, such as unsolicited e-mail, which could be viewed as “spam,” and privacy, as some potential survey respondents fear their personal information will be given or sold to third parties without their knowledge or permission.



Source: Pew Research Center's Internet and American Life Project, April 29-May 30, 2010 Tracking Survey. N = 2,252 adults 18 and older.

online survey

A research method in which respondents answer a questionnaire via e-mail or on a website

Online Surveys

Schlesinger Associates assists firms by administering online research projects, such as surveys.



The screenshot shows the Schlesinger Associates website. At the top is the company logo and name, "Schlesinger Associates A Marketing Research Corporation". To the right are search and location links. Below the header is a large banner image of a smiling man with a young girl sitting on his shoulders, with the text "Meet your customers." overlaid. A green navigation bar contains links: "Our people", "Our purpose", "What's new", and "Get in touch". Below the banner are four green boxes describing services: "Global Solutions" (one point solution to international research needs), "Qualitative research" (traditional and cutting edge solutions), "Online surveys" (high quality service, fast, quantitative results), and "Quantitative research" (online or infield, answers to your questions). A section titled "We have offices worldwide" lists offices in the USA, France, United Kingdom, and Germany.

Global Solutions
A one point solution to your international research needs.

Qualitative research
Traditional and cutting edge solutions.

Online surveys
High quality service. Fast, quantitative results.

Quantitative research
Online or infield, we find answers to your questions.

We have offices worldwide

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personal interview survey

A research method in which participants respond to survey questions face-to-face

in-home (door-to-door) interview

A personal interview that takes place in the respondent's home

focus-group interview

An interview that is often conducted informally, without a structured questionnaire, in small groups of 8 to 12 people, to observe interaction when members are exposed to an idea or a concept

customer advisory boards

Small groups of actual customers who serve as sounding boards for new-product ideas and offer insights into their feelings and attitudes toward a firm's products and other elements of its marketing strategy

In a **personal interview survey**, participants respond to questions face-to-face. Various audiovisual aids—pictures, products, diagrams, or prerecorded advertising copy—can be incorporated into a personal interview. Rapport gained through direct interaction usually permits more in-depth interviewing, including probes, follow-up questions, or psychological tests. In addition, because personal interviews can be longer, they may yield more information. Finally, respondents can be selected more carefully, and reasons for nonresponse can be explored.

One such research technique is the **in-home (door-to-door) interview**. The in-home interview offers a clear advantage when thoroughness of self-disclosure and elimination of group influence are important. In an in-depth interview of 45 to 90 minutes, respondents can be probed to reveal their true motivations, feelings, behaviors, and aspirations.

The object of a **focus-group interview** is to observe group interaction when members are exposed to an idea or a concept. Focus-group interviews are often conducted informally, without a structured questionnaire, in small groups of 8 to 12 people. They allow customer attitudes, behaviors, lifestyles, needs, and desires to be explored in a flexible and creative manner. Questions are open-ended and stimulate respondents to answer in their own words. Researchers can ask probing questions to clarify something they do not fully understand or something unexpected and interesting that may help explain buying behavior. For example, Ford may use focus groups to determine whether to change its advertising to emphasize a vehicle's safety features rather than its style and performance. On the other hand, focus-group participants do not always tell the truth. Some participants may be less than honest in an effort to be sociable or to receive money and/or food in exchange for their participation.¹⁸ However, they generally provide only qualitative, not quantitative, data, and are thus best used to uncover issues that can then be explored using quantifiable marketing research techniques.

Online focus groups can gather data from large and geographically diverse groups in a less intensive manner than focus-group interviews. Online focus groups are less expensive than traditional sit-down groups, but they do not allow for as much interaction, the ability to observe body language, or the spontaneity to quickly make changes in the discussion. Having a person on-site to interact with participants and to observe and manipulate verbal and nonverbal responses tends to be most effective. Ford Motor Company, for instance, prefers traditional live focus groups because of these advantages.¹⁹

More organizations are starting **customer advisory boards**, which are small groups of actual customers who serve as sounding boards for new-product ideas and offer insights into their feelings and attitudes toward a firm's products, promotion, pricing, and other elements of marketing strategy. While these advisory boards help companies maintain strong relationships with valuable customers, they can also provide great insight into marketing research questions. Maxine Clark, CEO and founder of Build-A-Bear Workshop, runs a customer advisory board with the purpose of staying in tune with what her customers want. She highly recommends that startups, in particular, found advisory boards, stating that this technique allows a company to focus immediately on what its consumer base truly wants.²⁰

Still another option is the **telephone depth interview**, which combines the traditional focus group's ability to probe with the confidentiality provided by a telephone survey. This type of interview is most appropriate for qualitative research projects among a small targeted group that is difficult to bring together for a traditional focus group because of members' professions, locations, or lifestyles. Respondents can choose the time and day for the interview. Although this method is difficult to implement, it can yield revealing information from respondents who otherwise would be unwilling to participate in marketing research.

The nature of personal interviews has changed. In the past, most personal interviews, which were based on random sampling or prearranged appointments, were conducted in the respondent's home. Today, many personal interviews are conducted in shopping malls. **Shopping mall intercept interviews** involve interviewing a percentage of individuals who pass by an "intercept" point in a mall. Like any face-to-face interviewing method, mall intercept interviewing has many advantages. The interviewer is in a position to recognize and react to respondents' nonverbal indications of confusion. Respondents can view product prototypes, videotapes of commercials, and the like, and provide their opinions. The mall environment lets the researcher deal with complex situations. For instance, in taste tests, researchers know that all the respondents are reacting to the same product, which can be prepared and monitored from the mall test kitchen. In addition to the ability to conduct tests requiring bulky equipment, lower cost and greater control make shopping mall intercept interviews popular.

An **on-site computer interview** is a variation of the shopping mall intercept interview in which respondents complete a self-administered questionnaire displayed on a computer monitor. A computer software package can be used to conduct such interviews in shopping malls. After a brief lesson on how to operate the software, respondents proceed through the survey at their own pace. Questionnaires can be adapted so that respondents see only those items (usually a subset of an entire scale) that may provide useful information about their attitudes.

InterVu Conduct Live Focus Groups Online with a Webcam

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FocusVision helps administer video-enabled online focus groups with the use of platforms like InterVu.

telephone depth interview

An interview that combines the traditional focus group's ability to probe with the confidentiality provided by telephone surveys

shopping mall intercept interview

A research method that involves interviewing a percentage of individuals passing by "intercept" points in a mall

on-site computer interview

A variation of the shopping mall intercept interview in which respondents complete a self-administered questionnaire displayed on a computer monitor

QUESTIONNAIRE CONSTRUCTION A carefully constructed questionnaire is essential to the success of any survey. Questions must be clear, easy to understand, and directed toward a specific objective; that is, they must be designed to elicit information that meets the study's data requirements. Researchers need to define the objective before trying to develop a questionnaire because the objective determines the substance of the questions and the amount of detail. A common mistake in constructing questionnaires is to ask questions that interest the researchers but do not yield information useful in deciding whether to accept or reject a hypothesis. Finally, the most important rule in composing questions is to maintain impartiality.

The questions are usually of three kinds: open-ended, dichotomous, and multiple-choice.

Open-Ended Question

What is your opinion of British Petroleum (BP)?

Dichotomous Question

Do you plan to purchase gasoline from a BP service station within the next 12 months?

Yes _____ No _____

Multiple-Choice Question

What age group are you in?

Under 20 _____

20–29 _____

30–39 _____

40–49 _____

50–59 _____

60 and over _____

Problems may develop in the analysis of dichotomous or multiple-choice questions when responses for one outcome outnumber others. For example, a dichotomous question that asks respondents to choose between “buy” or “not buy” might require additional sampling from the disproportionately smaller group if there were not enough responses to analyze.²¹

Researchers must also be very careful about questions that a respondent might consider too personal or that might require an admission of activities that other people are likely to condemn. Questions of this type should be worded to make them less offensive.

OBSERVATION METHODS In using observation methods, researchers record individuals' overt behavior, taking note of physical conditions and events. Direct contact with them is avoided; instead, their actions are examined and noted systematically. For instance, researchers might use observation methods to answer the question, “How long does the average McDonald's restaurant customer have to wait in line before being served?” Observation may include the use of ethnographic techniques, such as watching customers interact with a product in a real-world environment.

After decades of using the same familiar red label, Campbell's Soup used observation methods to help develop an updated and eye-catching label. For years, researchers at Campbell's observed and tested consumers' reactions to the labels in order to determine what they find appealing. The end result is a label that preserves the familiar red coloring but that features steaming soup in updated bowls meant to trigger stronger emotional responses in consumers. A challenge for the company was to preserve the familiar look of the soup label while also making it more eye-catching and interesting to consumers who may feel overwhelmed by the large number of options on the shelves.²² Observation may also be combined with interviews. For instance, during a personal interview, the condition of a respondent's

home or other possessions may be observed and recorded. The interviewer can also directly observe and confirm such demographic information as race, approximate age, and gender.

Data gathered through observation can sometimes be biased if the subject is aware of the observation process. However, an observer can be placed in a natural market environment, such as a grocery store, without influencing shoppers' actions. If the presence of a human observer is likely to bias the outcome or if human sensory abilities are inadequate, mechanical means may be used to record behavior. Mechanical observation devices include cameras, recorders, counting machines, scanners, and equipment that records physiological changes. A special camera can be used to record the eye movements of people as they look at an advertisement; the camera detects the sequence of reading and the parts of the advertisement that receive the greatest attention. The electronic scanners used in supermarkets are very useful in marketing research: they provide accurate data on sales and customers' purchase patterns, and marketing researchers may buy such data from the supermarkets.

Observation is straightforward and avoids a central problem of survey methods: motivating respondents to state their true feelings or opinions. However, observation tends to be descriptive. When it is the only method of data collection, it may not provide insights into causal relationships. Another drawback is that analyses based on observation are subject to the observer's biases or the limitations of the mechanical device.

INTERPRETING RESEARCH FINDINGS

After collecting data to test their hypotheses, marketers need to interpret the research findings. Interpretation of the data is easier if marketers carefully plan their data analysis methods early in the research process. They should also allow for continual evaluation of the data during the entire collection period. Marketers can then gain valuable insights into areas that should be probed during the formal analysis.

The first step in drawing conclusions from most research is to display the data in table format. If marketers intend to apply the results to individual categories of the things or people being studied, cross-tabulation may be useful, especially in tabulating joint occurrences. For example, using the two variables of gender and purchase rates of automobile tires, a cross-tabulation could show how men and women differ in purchasing automobile tires.

Green Marketing



Does Anyone Want a Green Luxury Car?

Buyers of luxury cars such as Ferrari, Porsche, BMW, and Cadillac have status and performance in mind. When shopping for a new vehicle, they look closely at features, styling, engine power, and interior details. But do they care about the environmental impact of their expensive cars?

Upscale automakers have found, through research, that their customers actually would welcome environmentally friendly luxury cars. For example, Ferrari's marketing vice president says that although customers put high performance at the top of their shopping list, they have an

"extremely positive" reaction to a greener luxury vehicle. In response, the company developed models with hybrid electric-gas motors for lower emissions and higher fuel efficiency.

Porsche has designed a plug-in hybrid version of its Spyder sports car (to be priced above \$650,000). BMW is developing a high-performance car with a plug-in hybrid engine, as well, at a lower price (about \$140,000). And Cadillac's Escalade Hybrid SUV (\$73,000 and up) is another luxury vehicle that's easy on the environment.^b

Interpreting Research Findings

Qualtrics assists firms with data collection and analysis.

After the data are tabulated, they must be analyzed. **Statistical interpretation** focuses on what is typical and what deviates from the average. It indicates how widely responses vary and how they are distributed in relation to the variable being measured. When marketers interpret statistics, they must take into account estimates of expected error or deviation from the true values of the population. The analysis of data may lead researchers to accept or reject the hypothesis being studied. Data require careful interpretation by the marketer. If the results of a study are valid, the decision maker should take action; if a question has been incorrectly or poorly worded, however, the results may produce poor decisions. Consider the research conducted for a food marketer that asked respondents to rate a product on criteria such as “hearty flavor,” as well as how important each criterion was to the respondent. Although such results may have had utility for advertising purposes, they are less helpful in product development because it is not possible to discern each respondent’s meaning of the phrase “hearty flavor.” Managers must understand the research results and relate them to a context that permits effective decision making.

REPORTING RESEARCH FINDINGS

The final step in the marketing research process is to report the research findings. Before preparing the report, the marketer must take a clear, objective look at the findings to see how well the gathered facts answer the research question or support or negate the initial hypotheses. In most cases, it is extremely doubtful that the study can provide everything

statistical interpretation

Analysis of what is typical and what deviates from the average

needed to answer the research question. Thus, the researcher must point out the deficiencies in the research and their causes in the report. Research should be meaningful to all participants, especially top managers who develop strategy. Therefore, researchers must try to make certain that their findings are relevant and not just interesting. Research is not useful unless it supports the organization's overall strategy objectives. The more knowledge researchers have about the opportunities and challenges facing an organization, the more meaningful their research report will be. If an outside research agency conducts research, it is even more important to understand the client's business. After conducting research, a research report is the next step. Those responsible for preparing the report must facilitate adjusting the findings to the environment, as elements change over time. Most importantly, the report should be helpful to marketers and managers on an ongoing basis.²³

The report of research results is usually a formal, written document. Researchers must allow time for the writing task when they plan and schedule the project. Because the report is a means of communicating with the decision makers who will use the research findings, researchers need to determine beforehand how much detail and supporting data to include. They should keep in mind that corporate executives prefer reports that are short, clear, and simply expressed. Researchers often give their summary and recommendations first, especially if decision makers do not have time to study how the results were obtained. A technical report allows its users to analyze data and interpret recommendations because it describes the research methods and procedures and the most important data gathered. Thus, researchers must recognize the needs and expectations of the report user and adapt to them.

Marketing researchers want to know about behavior and opinions, and they want accurate data to help them in making decisions. Careful wording of questions is very important because a biased or emotional word can dramatically change the results. Marketing research and marketing information systems can provide an organization with accurate and reliable customer feedback, which a marketer must have to understand the dynamics of the marketplace. As managers recognize the benefits of marketing research, they assign it a much larger role in decision making.

Emerging Trends in Marketing



Nielsen Company Offers Valuable Insights for Marketers

As one of the world's largest global marketing research firms, the Nielsen Company focuses on marketing information; trade shows; and online, television, mobile, and other media measurements. Nielsen's Consumer Buy segment collects information on consumer buying patterns through devices such as retail measurements and consumer panels. Nielsen's most well-known device, its people meter, records participating households' television viewing behavior. Such data are important for television stations and advertisers.

As more consumers embrace digital technology, Nielsen is evolving as well. The company has created many online

programs to measure user behavior through digital forums such as blogs and social media. The company has recently entered into a strategic alliance with MyWebGrocer to measure online supermarket sales. Nielsen believes it will be able to measure approximately 30 percent of all online supermarket sales in the country, making it an invaluable resource for companies in this industry. It also collects more than 20 million surveys each year related to marketing effectiveness. Nielsen's marketing research services provide valuable strategic insights for marketing decisions.⁶

Using Technology to Improve Marketing Information Gathering and Analysis

Technology makes information for marketing decisions increasingly accessible. The ability of marketers to track customer buying behavior and to better discern what buyers want is changing the nature of marketing. Customer relationship management is being enhanced by integrating data from all customer contacts and combining that information to improve customer retention. Information technology permits internal research and quick information gathering to help marketers better understand and satisfy customers. For instance, company responses to e-mail complaints—as well as to communications through mail, telephone, and personal contact—can be used to improve customer satisfaction, retention, and value. Armed with such information, marketers can fine-tune marketing mixes to satisfy their customers' needs.

The integration of telecommunications and computer technologies allows marketers to access a growing array of valuable information sources related to industry forecasts, business trends, and customer buying behavior. Electronic communication tools can be effectively used to gain accurate information with minimal customer interaction. Most marketing researchers have e-mail, voice mail, teleconferencing, and fax machines at their disposal. In fact, many firms use marketing information systems and CRM technologies to network

all these technologies and organize all the marketing data available to them. In this section, we look at marketing information systems and specific technologies that are helping marketing researchers obtain and manage marketing research data.

MARKETING INFORMATION SYSTEMS

A **marketing information system (MIS)** is a framework for the day-to-day management and structuring of information gathered regularly from sources both inside and outside the organization. As such, an MIS provides a continuous flow of information about prices, advertising expenditures, sales, competition, and distribution expenses. Anheuser-Busch, for example, uses a system called BudNet that compiles information about past sales at individual stores, the company's inventory, their competitors' displays and prices, and a host of other information collected by distributors' sales representatives on handheld computers. BudNet allows managers to respond quickly to changes in competitors' strategies with an appropriate promotional message, package, display, or discount.²⁴ This is important information for Budweiser in an increasingly competitive market where consumers' taste for beer appears to be on the decline. The main focus of the MIS is on data storage and retrieval, as well as on computer capabilities and management's information requirements. Regular reports of sales by product or market categories, data on inventory levels, and records of salespeople's activities are examples

marketing information system (MIS)

A framework for managing and structuring information gathered regularly from sources inside and outside the organization

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Using Technology

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of information that is useful in making decisions. In the MIS, the means of gathering data receive less attention than do the procedures for expediting the flow of information.

An effective MIS starts by determining the objective of the information—that is, by identifying decision needs that require certain information. The firm can then specify an information system for continuous monitoring to provide regular, pertinent information on both the external and internal environment. FedEx, for example, has interactive marketing systems that provide instantaneous communication between the company and customers. Customers can track their packages and receive immediate feedback concerning delivery via the Internet. The company's website provides information about customer usage and allows customers to convey what they think about company services. The evolving telecommunications and computer technologies allow marketers to use information systems to cultivate one-to-one relationships with customers.

DATABASES

Most marketing information systems include internal databases. A **database** is a collection of information arranged for easy access and retrieval. Databases allow marketers to tap into an abundance of information useful in making marketing decisions: internal sales reports, newspaper articles, company news releases, government economic reports, bibliographies, and more, often accessed through a computer system. Information technology has made it possible to develop databases to guide strategic planning and help improve customer services. Customer relationship management (CRM) employs database marketing techniques to identify different types of customers and develop specific strategies for interacting with each customer. CRM incorporates these three elements:

1. Identifying and building a database of current and potential consumers, including a wide range of demographic, lifestyle, and purchase information.
2. Delivering differential messages according to each consumer's preferences and characteristics through established and new media channels.
3. Tracking customer relationships to monitor the costs of retaining individual customers and the lifetime value of their purchases.²⁵

Many commercial websites require consumers to register and provide personal information to access the site or to make a purchase. Frequent-flyer programs permit airlines to ask loyal customers to participate in surveys about their needs and desires and to track their best customers' flight patterns by time of day, week, month, and year. Also, supermarkets gain a significant amount of data through checkout scanners tied to store discount cards.

Marketing researchers can also use databases, such as LexisNexis, to obtain useful information for marketing decisions. Many commercial databases are accessible online for a fee. Sometimes, they can be obtained in printed form or on computer compact discs. With most commercial databases, the user typically conducts a computer search by keyword, topic, or company, and the database service generates abstracts, articles, or reports that can then be printed out. Accessing multiple reports or a complete article may cost extra.

Information provided by a single firm on household demographics, purchases, television viewing behavior, and responses to promotions such as coupons and free samples is called **single-source data**. For example, Behavior Scan, offered by Information Resources Inc., screens markets with populations between 75,000 and 200,000.²⁶ This single-source information service monitors consumer household televisions and records the programs and commercials watched. When buyers from these households shop in stores equipped with scanning registers, they present Hotline cards (similar to credit cards) to cashiers. This enables each customer's identification to be electronically coded so the firm can track each product purchased and store the information in a database. It is important to gather longitudinal (long-term) information on customers to maximize the usefulness of single-source data.

database

A collection of information arranged for easy access and retrieval

single-source data

Information provided by a single marketing research firm

MARKETING DECISION SUPPORT SYSTEMS

A **marketing decision support system (MDSS)** is customized computer software that aids marketing managers in decision making by helping them anticipate the effects of certain decisions. Some decision support systems have a broader range and offer greater computational and modeling capabilities than spreadsheets; they let managers explore a greater number of alternatives. For instance, an MDSS can determine how sales and profits might be affected by higher or lower interest rates or how sales forecasts, advertising expenditures, production levels, and the like might affect overall profits. For this reason, MDSS software is often a major component of a company's marketing information system. Some decision support systems incorporate artificial intelligence and other advanced computer technologies.

Issues in Marketing Research

THE IMPORTANCE OF ETHICAL MARKETING RESEARCH

Marketing managers and other professionals are relying more and more on marketing research, marketing information systems, and new technologies to make better decisions.

Therefore, it is essential that professional standards be established by which to judge the reliability of marketing research. Such standards are necessary because of the ethical and legal issues that develop in gathering marketing research data. In the area of online interaction, for example, consumers remain wary of how the personal information collected by marketers will be used, especially whether it will be sold to third parties. In addition, the relationships between research suppliers, such as marketing research agencies, and the marketing managers who make strategy decisions require ethical behavior. Organizations such as the Marketing Research Association have developed codes of conduct and guidelines to promote ethical marketing research. To be effective, such guidelines must instruct marketing researchers on how to avoid misconduct. Table 4.5 recommends explicit steps interviewers should follow when introducing a questionnaire.

marketing decision support system (MDSS)

Customized computer software that aids marketing managers in decision making

Marketing Debate



Privacy: Where Do You Draw the Line Online?

ISSUE: *Can online targeting go too far?*

When consumers do an online search or download a digital coupon, marketers can follow their electronic movements. The purpose is to better target communications and tailor offers to customers' needs and interests.

However, consumers are not always aware of what information is being gathered and how it will be used. "Imagine that you were walking through a shopping mall, and there was someone that was walking behind you . . . taking notes on everywhere you went," says the head of the Federal Trade Commission. Moreover, the data would be available "to every shop or anyone who was interested, for a small fee."

Privacy advocates also worry about identity theft and whether marketers might restrict access to products based on consumers' online behavior. As experts debate the limits of online privacy, regulators are formulating new protections, and industry groups are developing new ways for consumers to opt out of tracking if they choose.^d

INTERNATIONAL ISSUES IN MARKETING RESEARCH

As we shall see in Chapter 9, sociocultural, economic, political, legal, and technological forces vary in different regions of the world. These variations create challenges for the organizations that are attempting to understand foreign customers through marketing research. The marketing research process we describe in this chapter is used globally, but to ensure the research is valid and reliable, data-gathering methods may have to be modified to allow for regional differences. To make certain that global and regional differences are satisfactorily addressed, many

TABLE 4.5 Guidelines for Questionnaire Introduction

- Allow interviewers to introduce themselves by name.
- State the name of the research company.
- Indicate that this questionnaire is a marketing research project.
- Explain that no sales will be involved.
- Note the general topic of discussion (if this is a problem in a “blind” study, a statement such as “consumer opinion” is acceptable).
- State the likely duration of the interview.
- Assure the anonymity of the respondent and the confidentiality of all answers.
- State the honorarium, if applicable (for many business-to-business and medical studies, this is done up-front for both qualitative and quantitative studies).
- Reassure the respondent with a statement such as, “There are no right or wrong answers, so please give thoughtful and honest answers to each question” (recommended by many clients).

Source: Reprinted with the permission of The Marketing Research Association, P.O. Box 230, Rocky Hill, CT 06067-0230, (860) 257-4008.

companies retain a research firm with experience in the country of interest. Most of the largest marketing research firms derive a significant share of their revenues from research conducted outside the United States. As Table 4.6 indicates, the Nielsen Company, the largest marketing research firm in the world, received nearly half of its revenues from outside the United States.²⁷

Experts recommend a two-pronged approach to international marketing research. The first phase involves a detailed search for and analysis of secondary data to gain a greater understanding of a particular marketing environment and to pinpoint issues that must be taken into account in gathering primary research data. Secondary data can be particularly

TABLE 4.6 Top U.S. Marketing Research Firms

Rank	Company	Global Revenues (in Millions of U.S. Dollars)	Percent of Revenues from Outside the United States
1	The Nielsen Co.	\$4,958.0	51.1%
2	The Kantar Group	3,183.6	71.3
3	IMS Health Inc.	2,211.6	63.8
4	SymphonyIRI Group	720.0	33.3
5	Westat Inc.	455.3	—

Source: “Top 50 U.S. Market Research Organizations,” *Marketing News*, June 30, 2011, p. 17.



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Issues in International Research

Asia Insight helps other organizations understand the environmental forces, such as sociocultural differences, that might introduce challenges when attempting to research foreign customers.

helpful in building a general understanding of the market, including economic, legal, cultural, and demographic issues, as well as in assessing the risks of doing business in that market and in forecasting demand. Marketing researchers often begin by studying country trade reports from the U.S. Department of Commerce, as well as country-specific information from local sources, such as a country's website, and trade and general business publications such as *The Wall Street Journal*. These sources can offer insights into the marketing environment in a particular country and can even indicate untapped market opportunities abroad.

The second phase involves field research using many of the methods described earlier, including focus groups and telephone surveys, to refine a firm's understanding of specific customer needs and preferences. Specific differences among countries can have a profound influence on data gathering. For instance, in-home (door-to-door) interviews are illegal in some countries. In developing countries, few people have land-line telephones, as many opt for cell phones, making telephone surveys less practical and less representative of the total population. Primary data gathering may have a greater chance of success if the firm employs local researchers who better understand how to approach potential respondents and can do so in their own languages.²⁸ Regardless of the specific methods used to gather primary data, whether in the United States or abroad, the goal is to recognize the needs of specific target markets to craft the best marketing strategy to satisfy the needs of customers in each market, as we will see in the next chapter.

CHAPTER REVIEW

1 Define marketing research and understand its importance.

Marketing research is the systematic design, collection, interpretation, and reporting of information to help marketers solve specific marketing problems or take advantage of marketing opportunities. Marketing research can help a firm to better understand market opportunities, ascertain the potential for success for new products, and determine the feasibility of a particular marketing strategy. The value of marketing research is measured by improvements in a marketer's ability to make decisions.

2 Describe the basic steps in conducting marketing research.

To maintain the control needed to obtain accurate information, marketers approach marketing research as a process with logical steps: (1) locating and defining problems or issues, (2) designing the research project, (3) collecting data, (4) interpreting research findings, and (5) reporting research findings.

3 Explore the fundamental methods of gathering data for marketing research.

The first step in launching a research study, the problem or issue definition, focuses on uncovering the nature and boundaries of a situation or question related to marketing strategy or implementation. When a firm discovers a market opportunity, it may need to conduct research to understand the situation more precisely so it can craft an appropriate marketing strategy. In the second step, marketing researchers design a research project to obtain the information needed to address it. This step requires formulating a hypothesis and determining what type of research to employ to test the hypothesis so the results are reliable and valid. A hypothesis is an informed guess or assumption about a problem or set of circumstances. Marketers conduct exploratory research when they need more information about a problem or want to make a tentative hypothesis more specific; they use conclusive research to verify insights through an objective procedure. Research is considered reliable if it produces almost identical results in repeated trials; it is valid if it measures what it is supposed to measure.

For the third step of the research process, collecting data, two types of data are available. Primary data are observed and recorded or collected directly from respondents; secondary data are compiled inside or outside the organization for some purpose other than the current investigation. Sources of secondary data include an organization's own database and other internal sources, periodicals, government publications, unpublished sources, and online databases. Methods of collecting primary data include sampling, surveys, observation, and experimentation. Sampling involves selecting representative units from a total population. In probability sampling, every element in the population being studied has a known chance of being selected for study. Nonprobability sampling is more subjective than probability sampling because there is no way to calculate the likelihood that a specific element of the population being studied will be chosen. Marketing researchers employ sampling to collect primary data through mail, telephone, online, or personal interview surveys. A carefully constructed questionnaire is essential to the success of any survey. In using observation methods, researchers record respondents' overt behavior and take note of physical conditions and events. In an experiment, marketing researchers attempt to maintain certain variables while measuring the effects of experimental variables.

To apply research data to decision making, marketers must interpret and report their findings properly—the final two steps in the marketing research process. Statistical interpretation focuses on what is typical or what deviates from the average. After interpreting the research findings, the researchers must prepare a report on the findings that the decision makers can understand and use. Researchers must also take care to avoid bias and distortion.

4 Describe the nature and role of tools such as databases, decision support systems, and the Internet in marketing decision making.

Many firms use computer technology to create a marketing information system (MIS), a framework for managing and structuring information gathered regularly from sources both inside and outside the organization. A database is a collection of information arranged for easy access and retrieval. A marketing decision support system (MDSS) is customized computer software that aids marketing

managers in decision making by helping them anticipate the effects of certain decisions. Online information services and the Internet also enable marketers to communicate with customers and obtain information.

5 Identify key ethical and international considerations in marketing research.

Eliminating unethical marketing research practices and establishing generally acceptable procedures

for conducting research are important goals of marketing research. Both domestic and international marketing use the same marketing research process, but international marketing may require modifying data-gathering methods to address regional differences.

ONLINE RESOURCES

Please visit the student website at www.cengagebrain.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

marketing research 89
 research design 92
 hypothesis 92
 exploratory research 92
 conclusive research 93
 descriptive research 93
 experimental research 93
 reliability 94
 validity 94
 primary data 94
 secondary data 94
 population 97
 sample 98

sampling 98
 probability sampling 98
 random sampling 98
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 statistical interpretation 106
 marketing information system
 (MIS) 108
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 marketing decision support system
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ISSUES FOR DISCUSSION AND REVIEW

1. What is marketing research? Why is it important?
2. Describe the five steps in the marketing research process.
3. What is the difference between defining a research problem and developing a hypothesis?
4. Describe the different types of approaches to marketing research, and indicate when each should be used.
5. Where are data for marketing research obtained? Give examples of internal and external data.
6. What is the difference between probability sampling and nonprobability sampling? In what situation would random sampling be best? Stratified sampling? Quota sampling?
7. Suggest some ways to encourage respondents to cooperate in mail surveys.
8. If a survey of all homes with listed telephone numbers is to be conducted, what sampling design should be used?
9. Describe some marketing problems that could be solved through information gained from observation.
10. What is a marketing information system, and what should it provide?
11. Define a database. What is its purpose, and what does it include?
12. How can marketers use online services and the Internet to obtain information for decision making?
13. What role do ethics play in marketing research? Why is it important that marketing researchers be ethical?
14. How does marketing research in other countries differ from marketing research in the United States?

MARKETING APPLICATIONS

1. After observing customers' traffic patterns, Bashas' Markets repositioned the greeting card section in its stores, and card sales increased substantially. To increase sales for the following types of companies, what information might marketing researchers want to gather from customers?
 - a. Furniture stores
 - b. Gasoline outlets service stations
 - c. Investment companies
 - d. Medical clinics
2. When a company wants to conduct research, it must first identify a problem or possible opportunity to market its goods or services. Choose a company in your city that you think might benefit from a research project. Develop a research question and outline a method to approach this question. Explain why you think the research question is relevant to the organization and why the particular methodology is suited to the question and the company.
3. Input for marketing information systems can come from internal or external sources. The Nielsen Company is the largest provider of single-source marketing research in the world. Identify two firms in your city that might benefit from internal sources and two that might benefit from external sources. Explain why these sources would be useful to these companies. Suggest the type of information each company should gather.
4. Suppose you are opening a health insurance brokerage firm and want to market your services to small businesses with fewer than 50 employees. Determine which database for marketing information you will use in your marketing efforts, and explain why you will use it.

ONLINE EXERCISE

5. ESOMAR, the European Society for Opinion and Marketing Research, was founded in 1948. It is a nonprofit association for marketing research professionals. ESOMAR promotes the use of opinion and marketing research to improve marketing decisions in companies worldwide and works to protect personal privacy in the research process. Visit the association's website at www.esomar.org.
 - a. How can ESOMAR help marketing professionals conduct research to guide marketing strategy?
 - b. How can ESOMAR help marketers to protect the privacy of research subjects when conducting marketing research in other countries?
 - c. ESOMAR introduced the first professional code of conduct for marketing research professionals in 1948. The association continues to update the document to address new technology and other changes in the marketing environment. According to ESOMAR's code, what are the specific professional responsibilities of marketing researchers?

DEVELOPING YOUR MARKETING PLAN

Decisions about which market opportunities to pursue, what customer needs to satisfy, and how to reach potential customers are not made in a vacuum. The information provided by marketing research activities is essential in developing both the strategic plan and the specific marketing mix. Focus on the following issues as you relate the concepts in this chapter to the development of your marketing plan.

1. Define the nature and scope of the questions you must answer with regard to your market. Identify the types of information you will need about the market to answer those questions. For example, do you need to know about the buying habits, household income levels, or attitudes of potential customers?

2. Determine whether or not this information can be obtained from secondary sources. Visit the websites provided in Table 4.3 as possible resources for the secondary data.
3. Using Table 4.4, choose the appropriate survey method(s) you would use to collect primary data for one of your information needs. What sampling method would you use?

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

MARKETING RESEARCH AND SALES FORECASTING AT OGDEN PUBLICATIONS

Understanding customers is the key to success at Ogden Publications. The Tulsa, Oklahoma-based company publishes magazines and books for people interested in self-sufficiency, sustainability, rural lifestyles, and farm memorabilia. Ogden publishes 10 magazines, including *Mother Earth News*, *Utne Reader*, and *Natural Home*.

Ogden Publications uses extensive market research in order to keep its customers happy and continue to grow its audience. According to Bryan Welch, publisher and editorial director at Ogden Publications, "We have become really dedicated to constantly and persistently surveying the audiences to make sure that we understand what turns them on." The results of surveys are used to describe and analyze buying behavior and ever-changing customers' needs and wants. Ogden uses the survey method when the nature of the problem or issue relates to relationships that can be translated into hypotheses that can be tested to see if these assumptions are correct. For example, decreased readership of magazines is associated with increased use of information technology within the target market (such as iPads, netbooks, and PDAs).

"We like to try to find out various things from an editorial perspective and advertising sales perspective that will help improve the content we are providing to our readers to make sure we are reaching the audience that our advertisers would like to reach,"

says Cheryl Olmstead, Ogden Publications' circulation and marketing director. Ogden's marketing team uses SurveyMonkey, an online survey system, to collect and store data from the many online surveys that Ogden presents to its readers. SurveyMonkey allows the marketing team to reduce its costs and increase its response rate. The system gives the marketing team more control over its surveys. Olmstead says, "We determine what questions we want to ask." Online surveys allow for quicker collection of audience responses and can be inexpensive compared to other data collection methods.

Ogden Publications also creates online companion websites for each of its magazines. In addition to offering customers additional resources, the online companions to the magazines also provide Ogden with valuable information about its readers. Once a customer visits the magazine's site, Ogden can track several activities, including the number of clicks on advertising links and how many minutes the customer spends on a particular page. With a traditional magazine, Ogden Publications would have to wait several months to get reader and advertiser feedback. With the companion sites, it can see if it needs to change its content and make adjustments to future editions of the print and web products. Internal primary data collection through the companion websites allows Ogden to further customize online content to better meet readers' needs.

"One thing we do differently here than people do in most businesses is that we don't budget, we forecast," says Welch. Olmstead and her team use information from past years and the reception from various new marketing projects to forecast future sales, both at the subscription and newsstand level and with advertisers. However, the forecasts often serve as general guidelines for Ogden Publications. "I will tell you, without a shadow of a doubt, that the five-year forecast is accurate six months out. Beyond that, it is wildly inaccurate," says Welch. "The reason you do it is because it is a strategic tool. It makes everyone think about what we will need to do to be successful in five years." Forecasting represents a critical stage in strategic planning that attempts to understand external and internal forces and their impact on sales over time. When interpreting statistical information such as forecasts, it is important to reflect on any changes that affect the assumptions of the forecast.

Ogden's readership continues to grow, thanks to the increased interest in sustainable lifestyles. Market research helps the company to tailor the magazine to readers' evolving desires. Welch says, "Our knowledge of how effective our medium is is extremely powerful today." Without marketing research, companies would struggle to determine changing market and consumer needs.²⁹

QUESTIONS FOR DISCUSSION

1. Why is marketing research an important marketing activity for Ogden Publications?
2. What types of market research (exploratory, conclusive, descriptive, and experimental) does Ogden Publications conduct?
3. Why does Ogden Publications create long-term forecasts if they often become inaccurate after six months?

CHAPTER 5

Target Market Segmentation and Evaluation

OBJECTIVES:

- 1 Learn about *markets*.
- 2 Understand the differences among general targeting strategies.
- 3 Become familiar with the major segmentation variables.
- 4 Know what segment profiles are and how they are used.
- 5 Understand how to evaluate market segments.
- 6 Identify the factors that influence the selection of specific market segments for use as target markets.
- 7 Become familiar with sales forecasting methods.



AP Images/Laurent Rebours

MARKETING INSIGHTS

Trek Bicycle Targets Serious Cyclists

Trek Bicycle, founded in 1976, gets a marketing boost whenever Lance Armstrong and other pros speed off on their Trek bikes. Based in Waterloo, Wisconsin, Trek is North America's largest bicycle manufacturer, with more than \$600 million in annual sales. Knowing it can't do everything for all cyclists, Trek focuses on satisfying the needs of serious cyclists who seek top-quality, high-performance bicycles for athletic training and competition, recreation, or commuting.

For example, Trek has found that the lifestyles and behavior of consumers who like mountain biking are distinctly different from those of consumers who ride in the city. Even among mountain bikers, some consumers prefer to feel the rough terrain under their wheels, while others want a smoother ride. Similarly, some urban riders are interested in style, while others care about a bike's environmental impact. Professional athletes want the very best performance, whether they're competing in a fast-paced triathlon or the grueling Tour de France.

Targeting the segments it can satisfy most effectively, Trek offers two lines of mountain bikes, "hardtails" for feeling the ride and "full-suspension" for comfort. For urban riders, it markets seven models of pedal-power bikes and five equipped with electric motors. For consumers who wheel around on bike paths or along city streets, Trek offers a wide variety of options, including one tandem model. Because one size does not fit all cyclists, Trek also designs bikes specifically for women. In addition, customers can design and equip their own bikes online using Trek's Project One configuration tool. Where will targeting take Trek next?¹

Like most organizations that are trying to compete effectively, Trek Bicycle has identified specific customer groups toward which it will direct its marketing efforts. Any organization that wants to succeed must identify its customers and develop and maintain marketing mixes that satisfy the needs of those customers.

In this chapter, we explore markets and market segmentation. Initially, we define the term *market* and discuss the major requirements of a market. Then we examine the steps in the target market selection process, including identifying the appropriate targeting strategy, determining which variables to use for segmenting consumer and business markets, developing market segment profiles, evaluating relevant market segments, and selecting target markets. Finally, we discuss various methods for developing sales forecasts.

What Are Markets?

In Chapter 2, we defined a *market* as a group of people who, as individuals or as organizations, have needs for products in a product class and have the ability, willingness, and authority to purchase such products. Students, for example, are part of the market for textbooks, as well as for computers, clothes, food, music, and other products. Individuals can have the desire, the buying power, and the willingness to purchase certain products, but may not have the authority to do so. For example, teenagers may have the desire, the money, and the willingness to buy liquor, but a liquor producer does not consider them a market because teenagers are prohibited by law from buying alcoholic beverages. Thus, a group of people that lacks any one of the four requirements does not constitute a market.

Markets fall into one of two categories: consumer markets and business markets. These categories are based on the characteristics of the individuals and groups that make up a specific market and the purposes for which they buy products. A **consumer market** consists of purchasers and household members who intend to consume or benefit from the purchased products and do not buy products for the main purpose of making a profit. Consumer markets are sometimes also referred to as *business-to-consumer (B2C) markets*. Each of us

consumer market

Purchasers and household members who intend to consume or benefit from the purchased products and do not buy products to make profits



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Types of Markets

Mars, the maker of M&M's, advertises to consumers, whereas Citrix advertises to businesses.

Courtesy of Citrix®/GoToMeeting®

belongs to numerous consumer markets. The millions of individuals with the ability, willingness, and authority to buy make up a multitude of consumer markets for products such as housing, food, clothing, vehicles, personal services, appliances, furniture, recreational equipment, and so on, as we shall see in Chapter 6.

A **business market** consists of individuals or groups that purchase a specific kind of product for one of three purposes: resale, direct use in producing other products, or use in general daily operations. For instance, a lamp producer that buys electrical wire to use in the production of lamps is part of a business market for electrical wire. This same firm purchases dust mops to clean its office areas. Although the mops are not used in the direct production of lamps, they are used in the operations of the firm; thus, this manufacturer is part of a business market for dust mops. Business markets also may be called *business-to-business (B2B)*, *industrial*, or *organizational markets*. They also can be classified into producer, reseller, government, and institutional markets, as we shall see in Chapter 7.

Target Market Selection Process

As indicated earlier, the first of two major components of developing a marketing strategy is to select a target market. Although marketers may employ several methods for target market selection, generally they use a five-step process. This process is shown in Figure 5.1, and we discuss it in the following sections.

Step 1: Identify the Appropriate Targeting Strategy

business market

Individuals, organizations, or groups that purchase a specific kind of product for resale, direct use in producing other products, or use in general daily operations

undifferentiated targeting strategy

A strategy in which an organization designs a single marketing mix and directs it at the entire market for a particular product

A target market is a group of people or organizations for which a business creates and maintains a marketing mix specifically designed to satisfy the needs of group members. The strategy used to select a target market is affected by target market characteristics, product attributes, and the organization's objectives and resources. Figure 5.2 illustrates the three basic targeting strategies: undifferentiated, concentrated, and differentiated.

UNDIFFERENTIATED TARGETING STRATEGY

An organization sometimes defines an entire market for a particular product as its target market. When a company designs a single marketing mix and directs it at the entire market for a particular product, it is using an **undifferentiated targeting strategy**. As Figure 5.2 shows, the strategy assumes that all customers in the target market for a specific kind of product have similar needs, and thus the organization can satisfy most customers with a single marketing

FIGURE 5.1 Target Market Selection Process

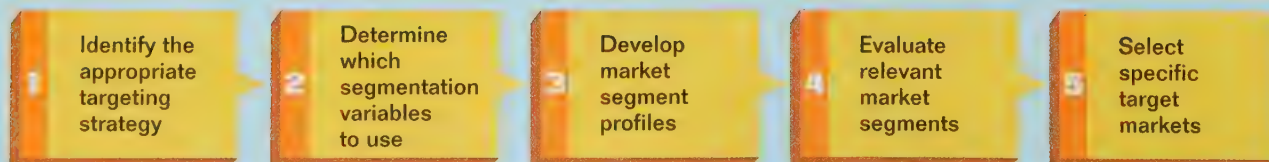
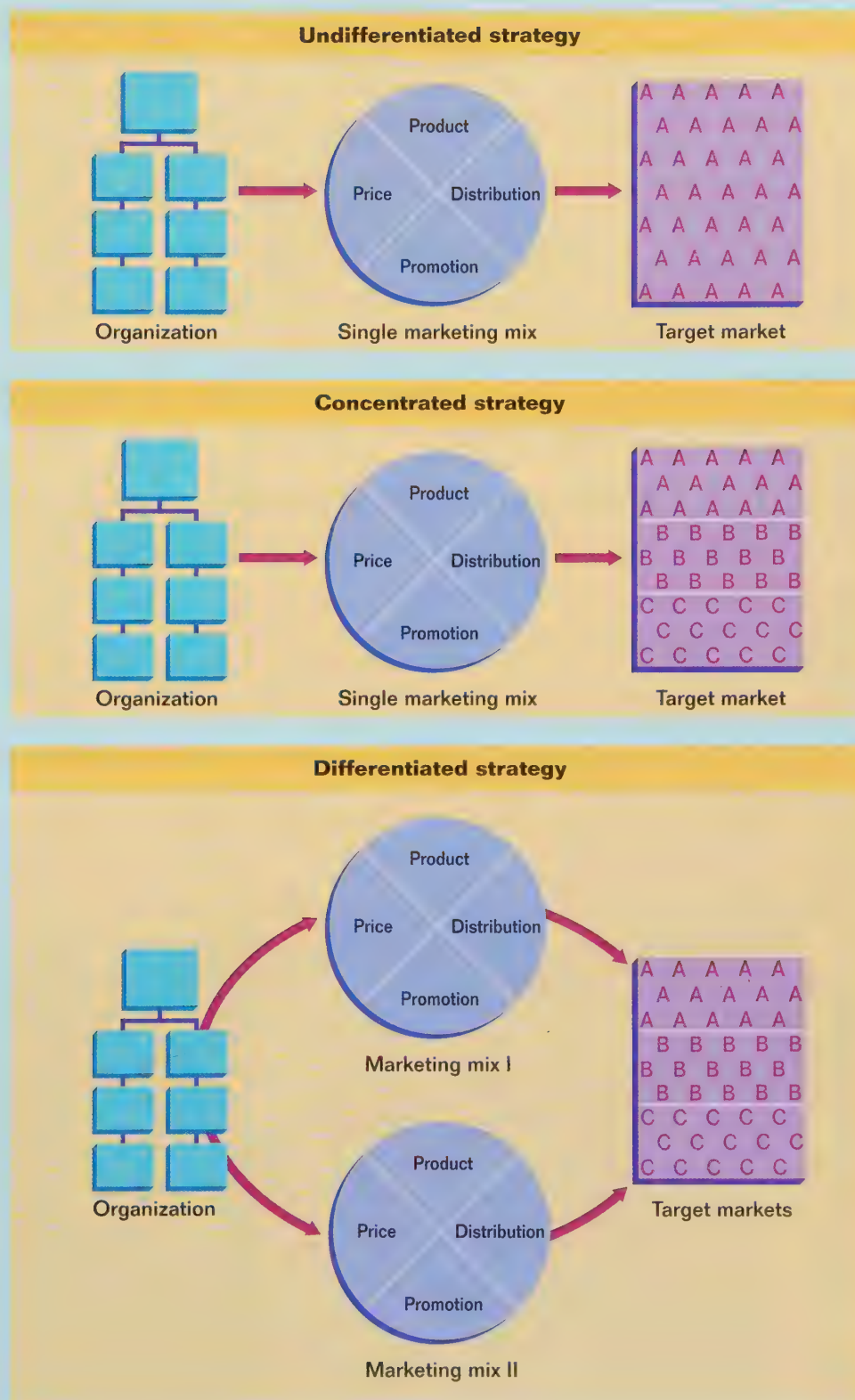


FIGURE 5.2 Targeting Strategies

The letters in each target market represent potential customers. Customers with the same letters have similar characteristics and product needs.

mix. This mix consists of one type of product with little or no variation, one price, one promotional program aimed at everybody, and one distribution system to reach most customers in the total market. Products marketed successfully through the undifferentiated strategy include commodities and staple food items, such as sugar and salt, and certain kinds of farm produce.

The undifferentiated targeting strategy is effective under two conditions. First, a large proportion of customers in a total market must have similar needs for the product, a situation termed a **homogeneous market**. A marketer using a single marketing mix for a total market of customers with a variety of needs would find that the marketing mix satisfies very few people. A “universal car” meant to suit everyone would fulfill very few customers’ needs for cars because it would not provide the specific combination of attributes sought by a particular person. Second, the organization must be able to develop and maintain a single marketing mix that satisfies customers’ needs. The company must be able to identify a set of needs common to most customers in a total market and have the resources and managerial skills to reach a sizable portion of that market.

The reality is that although customers may have similar needs for a few products, for most products their needs decidedly differ. In such instances, a company should use a concentrated or a differentiated strategy.

CONCENTRATED TARGETING STRATEGY THROUGH MARKET SEGMENTATION

A market made up of individuals or organizations with diverse product needs is called a **heterogeneous market**. Not everyone wants the same type of car, furniture, or clothes. For example, some individuals want an economical car, whereas others desire a status symbol, and still others seek a roomy and comfortable or fuel-efficient vehicle. The automobile market thus is heterogeneous.

For heterogeneous markets, market segmentation is appropriate. **Market segmentation** is the process of dividing a total market into groups, or segments, that consist of people or organizations with relatively similar product needs. The purpose is to enable a marketer to design a marketing mix that more precisely matches the needs of customers in the selected market segment. A **market segment** consists of individuals, groups, or organizations that share one or more similar characteristics that cause them to have relatively similar product needs. The automobile market is divided into many different market segments. Consider the Lexus 600h L, a luxury hybrid sedan with a base price of about \$110,000. This car targets high-income individuals who are environmentally conscious. This is not a vehicle that is purchased by the masses.²

The main rationale for segmenting heterogeneous markets is that a company is better able to develop a satisfying marketing mix for a relatively small portion of a total market than to develop a mix that meets the needs of all people. Market segmentation is widely used. Fast-food chains, soft-drink companies, magazine publishers, hospitals, and banks are just a few types of organizations that employ market segmentation.

For market segmentation to succeed, five conditions must exist. First, customers’ needs for the product must be heterogeneous; otherwise, there is little reason to segment the market. Second, segments must be identifiable and divisible. The company must find a characteristic or variable for effectively separating individuals in a total market into groups containing people with relatively uniform needs for the product. Third, the total market should be divided so segments can be compared with respect to estimated sales potential, costs, and profits. Fourth, at least one segment must have enough profit potential to justify developing and maintaining a special marketing mix for that segment. Finally, the company must be able to reach the chosen segment with a particular marketing mix. Some market segments may be difficult or impossible to reach because of legal, social, or distribution constraints. For instance, marketers of Cuban rum and cigars cannot market to U.S. consumers because of political and trade restrictions.

homogeneous market

A market in which a large proportion of customers have similar needs for a product

heterogeneous market

A market made up of individuals or organizations with diverse needs for products in a specific product class

market segmentation

The process of dividing a total market into groups with relatively similar product needs to design a marketing mix that matches those needs

market segment

Individuals, groups, or organizations sharing one or more similar characteristics that cause them to have similar product needs

When an organization directs its marketing efforts toward a single market segment using one marketing mix, it is employing a **concentrated targeting strategy**. Porsche focuses on the luxury sports car segment and directs almost all of its marketing efforts toward high-income individuals who want to own high-performance sports cars. Notice in Figure 5.2 that the organization that is using the concentrated strategy is aiming its marketing mix only at “B” customers.

The chief advantage of the concentrated strategy is that it allows a firm to specialize. The firm analyzes the characteristics and needs of a distinct customer group and then focuses all its energies on satisfying that group’s needs. A firm may generate a large sales volume by reaching a single segment. Also, concentrating on a single segment permits a firm with limited resources to compete with larger organizations that may have overlooked smaller segments.

Specialization, however, means that a company puts all its eggs in one basket, which can be hazardous. If a company’s sales depend on a single segment and the segment’s demand for the product declines, the company’s financial strength also deteriorates. Moreover, when a firm penetrates one segment and becomes well entrenched, its popularity may keep it from moving into other segments. For example, it is very unlikely that Mont Blanc could or would want to compete with Bic in the low-end, disposable-pen market segment.

DIFFERENTIATED TARGETING STRATEGY THROUGH MARKET SEGMENTATION

With a **differentiated targeting strategy**, an organization directs its marketing efforts at two or more segments by developing a marketing mix for each segment (refer to Figure 5.2). After a firm uses a concentrated strategy successfully in one market segment, it sometimes expands its efforts to include additional segments. For instance, Dove has traditionally been aimed at one segment: women. However, the company now also markets care and cleansing products to men, including face washes, soap, and a dual-sided shower tool.³

concentrated targeting strategy

A market segmentation strategy in which an organization targets a single market segment using one marketing mix

differentiated targeting strategy

A strategy in which an organization targets two or more segments by developing a marketing mix for each segment



Courtesy of the Advertising Archives



© J Group Photo

Concentrated Targeting Strategy

Both Mont Blanc and Bic use a concentrated targeting strategy. Each one is aimed at a different market segment. They are not competing for the same customers.

Marketing mixes for a differentiated strategy may vary as to product features, distribution methods, promotion methods, and prices. A firm may increase sales in the aggregate market through a differentiated strategy because its marketing mixes are aimed at more people. For example, Victoria's Secret has a variety of lingerie collections in its stores, but one collection has seen a huge success with the younger target market: PINK. The line was doing so well, Victoria's Secret gave the collection its own stores, which opened in the United States and Canada.⁴ A company with excess production capacity may find a differentiated strategy advantageous because the sale of products to additional segments may absorb excess capacity. On the other hand, a differentiated strategy often demands more production processes, materials, and people. Thus, production costs may be higher than with a concentrated strategy.

Step 2: Determine Which Segmentation Variables to Use

segmentation variables

Characteristics of individuals, groups, or organizations used to divide a market into segments

Segmentation variables are the characteristics of individuals, groups, or organizations used to divide a market into segments. For instance, location, age, gender, and rate of product usage can all be bases for segmenting markets. Most marketers use several variables in combination. NutriSystem Silver, for example, is a weight loss program just for men (gender) over the age of 60 (age), and it is targeted through advertisements that use older sports celebrities, such as ex-NFL coach Don Shula, who have had success using the program.⁵ To select a segmentation variable, several factors are considered. The segmentation variable should relate to customers' needs for, uses of, or behavior toward the product. Television marketers might segment the television market based on income and age but not on religion because people's television needs do not differ due to religion. Furthermore, if individuals or organizations in a total market are to be classified accurately, the segmentation variable must be measurable. Age, location, and gender are measurable because such information can be obtained through observation or questioning. In contrast, segmenting a market on the basis of, say, intelligence is extremely difficult because this attribute is harder to measure accurately.

A company's resources and capabilities affect the number and size of segment variables used. The type of product and degree of variation in customers' needs also dictate the number and size of segments targeted. In short, there is no best way to segment markets.

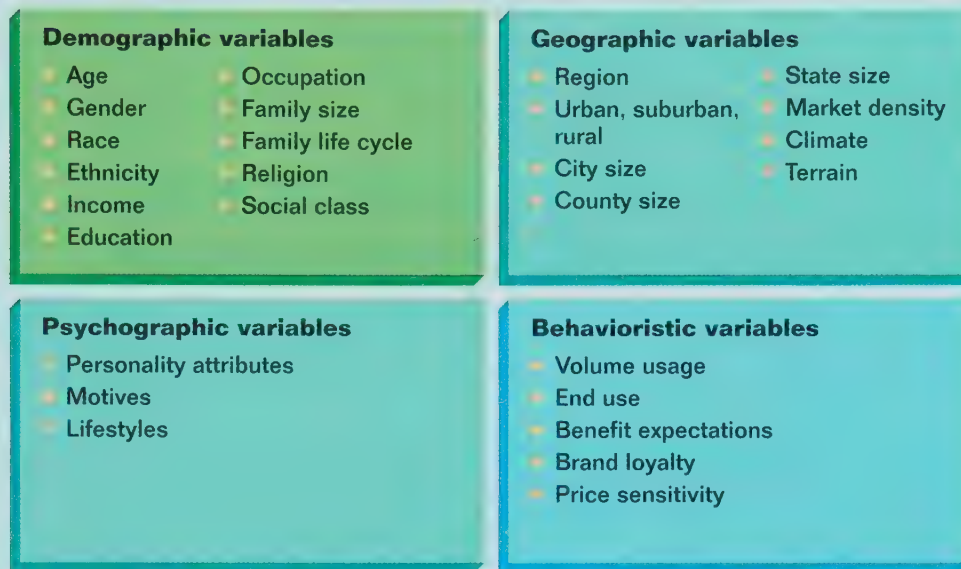
Choosing one or more segmentation variables is a critical step in targeting a market. Selecting an inappropriate variable limits the chances of developing a successful marketing strategy. To help you better understand potential segmentation variables, we next examine the major types of variables used to segment consumer markets and the types used to segment business markets.



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Segmentation Based on Family Life Cycle

Nissan targets families with children.

FIGURE 5.3 Segmentation Variables for Consumer Markets

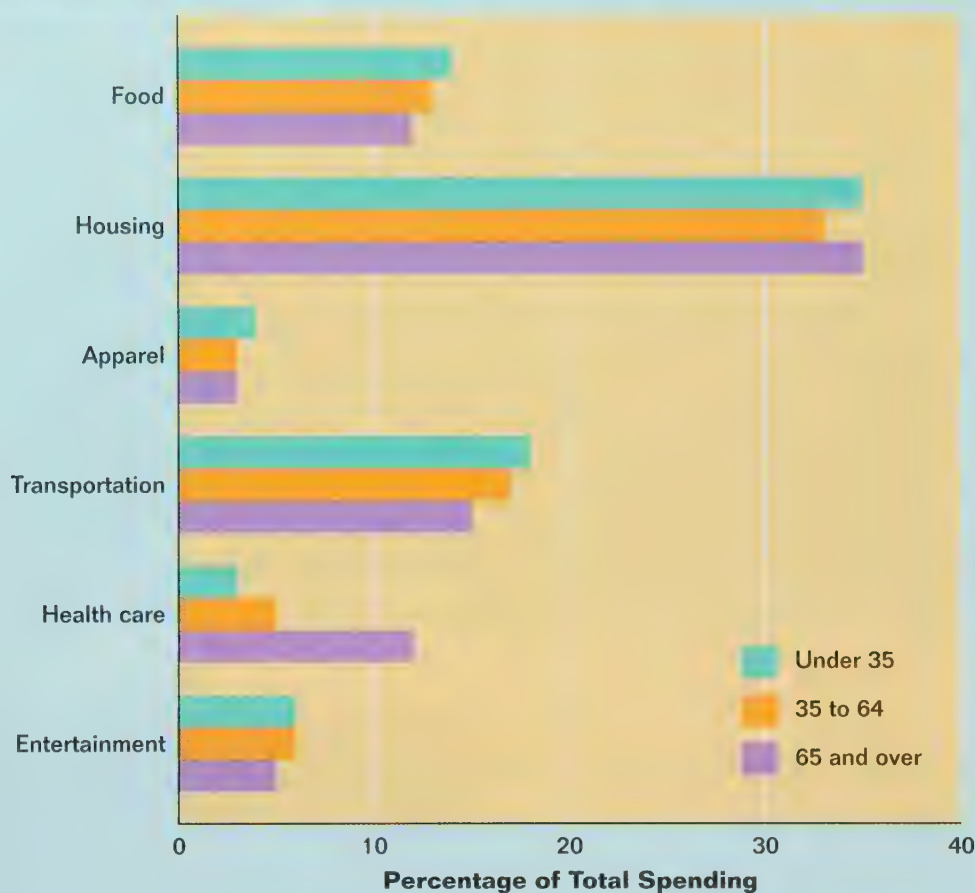
VARIABLES FOR SEGMENTING CONSUMER MARKETS

A marketer that is using segmentation to reach a consumer market can choose one or several variables from an assortment of possibilities. As Figure 5.3 shows, segmentation variables can be grouped into four categories: demographic, geographic, psychographic, and behavioristic.

Demographic Variables

Demographers study aggregate population characteristics such as the distribution of age and gender, fertility rates, migration patterns, and mortality rates. Demographic characteristics that marketers commonly use in segmenting markets include age, gender, race, ethnicity, income, education, occupation, family size, family life cycle, religion, and social class. Marketers rely on these demographic characteristics because they are often closely linked to customers' needs and purchasing behaviors and can be readily measured. Like demographers, a few marketers even use mortality rates. Service Corporation International (SCI), the largest U.S. funeral services company, attempts to locate its facilities in higher-income suburban areas with high mortality rates. SCI operates more than 1,700 funeral service locations, cemeteries, and crematoriums.⁶

Age is a commonly used variable for segmentation purposes. A trip to the shopping mall highlights the fact that many retailers, including Abercrombie & Fitch, Aeropostale, and American Eagle Outfitters, target teens and very young adults. Some of these retailers are now looking to create new marketing mixes for their customers as they age by opening new concept stores with new brand names. Several clothing companies, for example, created new brands for their own stores to provide more mature clothing options to aging Generation Y customers (born between 1980 and 1996). Marketers need to be aware of age distribution and how that distribution is changing. All age groups under 55 are expected to decrease by the year 2025, whereas all age categories 55 and older are expected to increase. In 1970,

FIGURE 5.4 Spending Levels of Three Age Groups for Selected Product Categories

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Age of Reference Person: Average Annual Expenditures and Characteristics," *Consumer Expenditure Survey*, 2009, Table 3, www.bls.gov/cex/2009/Standard/age.pdf (accessed June 28, 2011).

the average age of a U.S. citizen was 27.9; currently it is about 36.8.⁷ As Figure 5.4 shows, Americans 65 and older spend as much or more on food, housing, and health care compared to Americans in the two younger age groups.

Many marketers recognize the purchase influence of children and are targeting more marketing efforts at them. Disney, for example, partnered with Asus to create the Disney Netpal, a netbook computer for children that is durable, has easy-to-use software, and allows parents to set time restrictions and control their children's online activity.⁸ As a group, parents of children ages 4 to 12 have annual incomes in excess of \$40 billion. Numerous products are aimed specifically at children—toys, clothing, food and beverages, and entertainment such as movies and TV cable channels. In addition, children in this age group influence \$670 billion of parental spending yearly.⁹ In households with only one parent or those in which both parents work, children often take on additional responsibilities such as cooking, cleaning, and grocery shopping, and thus influence the types of products and brands these households purchase.

Gender is another demographic variable that is commonly used to segment markets, including the markets for clothing, soft drinks, nonprescription medications, toiletries, magazines, and even cigarettes. The U.S. Census Bureau reports that girls and women account for 49.3 percent and boys and men for 50.7 percent of the total U.S. population.¹⁰ Some deodorant marketers use gender segmentation: Secret and Soft & Dri are targeted specifically

at women, whereas Degree and Old Spice are directed toward men. Food and beverage companies are paying close attention to women and have determined that all important food marketing trends are partially the result of women's influence in the home.¹¹

Marketers also use race and ethnicity as variables for segmenting markets for such products as food, music, clothing, cosmetics, banking, and insurance. Mattel, for example, has designed Barbie to be a doll of many hobbies and professions. Mattel is making a greater effort to reach the multicultural market with its new line of dolls called So In Style, which are designed to have an African American appearance. These changes were made in hopes of reaching, relating to, and inspiring more young girls.¹²

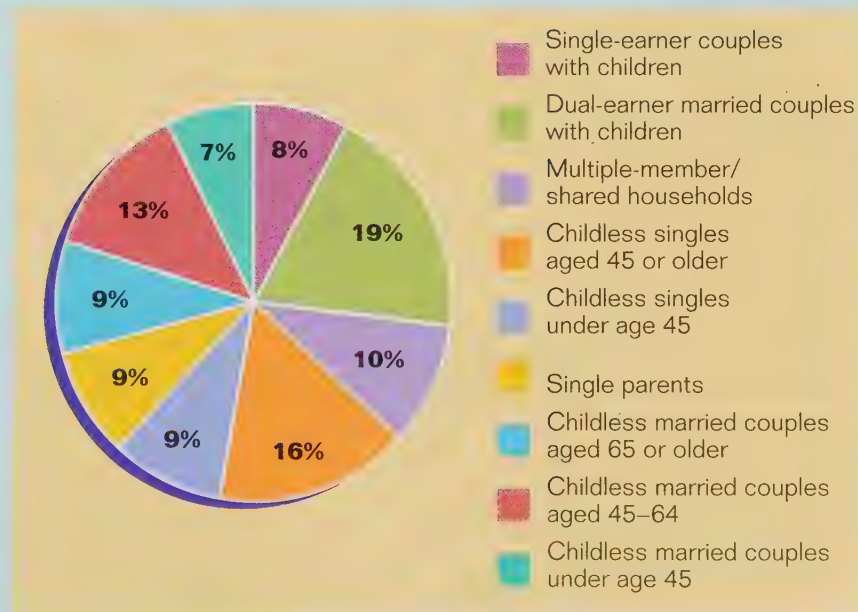
Because income strongly influences people's product needs, it often provides a way to divide markets. Income affects people's ability to buy and their desires for certain lifestyles. Product markets segmented by income include sporting goods, housing, furniture, cosmetics, clothing, jewelry, home appliances, automobiles, and electronics. Although many retailers choose to target higher-income consumers, some marketers are instead going after lower-income consumers.

Among the factors that influence household income and product needs are marital status and the presence and age of children. These characteristics, often combined and called the *family life cycle*, affect needs for housing, appliances, food and beverages, automobiles, and recreational equipment.

Marketers also use many other demographic variables. For instance, dictionary publishing companies segment markets by education level. Some insurance companies segment markets using occupation, targeting health insurance at college students and young workers with employers that do not provide health coverage. Family life cycles can be broken down in various ways. Figure 5.5 shows a breakdown into nine categories. The composition of the U.S. household in relation to the family life cycle has changed considerably over the last several decades.

Single-parent families are on the rise, meaning that the "typical" family no longer consists of a married couple with children. Since 1970, the number of households headed by a single mother increased from 12 to 23 percent of total family households, and that number

FIGURE 5.5 Family Life Cycle Stages as a Percentage of All Households



Source: U.S. Bureau of the Census, Current Population Survey.

Green Marketing



Encouraging Green Behavior, One Community at a Time

No matter where you live, chances are your community has been or will be part of a geographic segment encouraged to behave in an environmentally friendly way. Cincinnati, for example, has partnered with a company called RecycleBank to reward residents for doing more to recycle. The city electronically tracks the amount of recyclables carted away and credits each home or small business with points that can be redeemed for gifts and gift cards. This program thus saves landfill space and raises money by selling more recycled materials.

Many programs encourage energy-efficient behavior. The nonprofit Project Porchlight has distributed free CFL bulbs in 1,200 neighborhoods throughout North America to reduce electricity usage. The group's research shows that 9 out of 10 households have installed (or plan to install) the free bulb in place of a traditional light bulb. Another organization called Seattle City Light recently gave away free CFL bulbs and water-saving showerheads in a door-to-door campaign throughout the city.^a

grew from 1 to 3 percent for families headed by a single father. Another factor that influences the family life cycle is that the increase in median marrying age for women has increased from 20.8 to 25.9 years since 1970, while for men it increased from 23.2 to 28.1 years. Additionally, the proportion of women ages 20 to 24 who have never been married has more than doubled over this time, and for women ages 30 to 34 this number has nearly tripled. Other important changes in the family life cycle include the rise in the number of people living alone and the number of unmarried couples living together.¹³ Tracking these changes helps marketers satisfy the needs of particular target markets through new marketing mixes.

Geographic Variables

Geographic variables—climate, terrain, city size, population density, and urban/rural areas—also influence consumer product needs. Markets may be divided into regions because one or more geographic variables can cause customers to differ from one region to another. Consumers in the South, for instance, rarely have need for snow tires. A company that sells products to a national market might divide the United States into the following regions: Pacific, Southwest, Central, Midwest, Southeast, Middle Atlantic, and New England. A firm that is operating in one or several states might regionalize its market by counties, cities, zip code areas, or other units.

City size can be an important segmentation variable. Some marketers focus efforts on cities of a certain size. Consider one franchised restaurant organization that will not locate in cities of fewer than 200,000 people. It concluded that a smaller population base would result in inadequate profits. Other firms actively seek opportunities in smaller towns. A classic example is Walmart, which initially was located only in small towns.

Because cities often cut across political boundaries, the U.S. Census Bureau developed a system to classify metropolitan areas (any area with a city or urbanized area with a population of at least 50,000 and a total metropolitan population of at least 100,000). Metropolitan areas are categorized as one of the following: a metropolitan statistical area (MSA), a primary metropolitan statistical area (PMSA), or a consolidated metropolitan statistical area (CMSA). An MSA is an urbanized area encircled by nonmetropolitan counties and is neither

socially nor economically dependent on any other metropolitan area. A metropolitan area within a complex of at least 1 million inhabitants can elect to be named a PMSA. A CMSA is a metropolitan area of at least 1 million that has two or more PMSAs. Of the 20 CMSAs, the five largest—New York, Los Angeles, Chicago, San Francisco, and Philadelphia—account for 20 percent of the U.S. population. The federal government provides a considerable amount of socioeconomic information about MSAs, PMSAs, and CMSAs that can aid in market analysis and segmentation.

Market density refers to the number of potential customers within a unit of land area, such as a square mile. Although market density relates generally to population density, the correlation is not exact. For example, in two different geographic markets of approximately equal size and population, market density for office supplies would be much higher in one area if it contained a much greater proportion of business customers than the other area. Market density may be a useful segmentation variable because low-density markets often require different sales, advertising, and distribution activities than do high-density markets.

A number of marketers are using geodemographic segmentation. **Geodemographic segmentation** clusters people in zip code areas and even smaller neighborhood units based on lifestyle and demographic information. These small, precisely described population clusters help marketers isolate demographic units as small as neighborhoods where the demand for specific products is strongest. Information companies such as Donnelley Marketing Information Services, Claritas, and C.A.C.I. Inc. provide geodemographic data services called Prospect Zone, PRIZM, and Acorn, respectively. PRIZM is based on a classification of the more than 500,000 U.S. neighborhoods into one of 66 cluster types, such as “shotguns and pickups,” “money and brains,” and “gray power.”

Geodemographic segmentation allows marketers to engage in micromarketing. **Micromarketing** is the focusing of precise marketing efforts on very small geographic markets, such as community and even neighborhood markets. Providers of financial and health-care services, retailers, and consumer products companies use micromarketing. Special advertising campaigns, promotions, retail site location analyses, special pricing, and unique retail product offerings are a few examples of micromarketing facilitated through geodemographic segmentation. Many retailers use micromarketing to determine the merchandise mix for individual stores.

Climate is commonly used as a geographic segmentation variable because of its broad impact on people’s behavior and product needs. Product markets affected by climate include air-conditioning and heating equipment, fireplace accessories, clothing, gardening equipment, recreational products, and building materials.

Psychographic Variables

Marketers sometimes use psychographic variables, such as personality characteristics, motives, and lifestyles, to segment markets. A psychographic dimension can be used by itself to segment a market or it can be combined with other types of segmentation variables.

Personality characteristics can be useful for segmentation when a product resembles many competing products and consumers’ needs are not significantly related to other



Geographic Variables

SUVs appeal to people who live in cold weather climates.

market density

The number of potential customers within a unit of land area

geodemographic segmentation

A method of market segmentation that clusters people in zip code areas and smaller neighborhood units based on lifestyle and demographic information

micromarketing

An approach to market segmentation in which organizations focus precise marketing efforts on very small geographic markets

segmentation variables. However, segmenting a market according to personality traits can be risky. Although marketing practitioners have long believed consumer choice and product use vary with personality, until recently marketing research had indicated only weak relationships. It is hard to measure personality traits accurately, especially because most personality tests were developed for clinical use, not for segmentation purposes.

When appealing to a personality characteristic, a marketer almost always selects one that many people view positively. Individuals with this characteristic, as well as those who would like to have it, may be influenced to buy that marketer's brand. Marketers taking this approach do not worry about measuring how many people have the positively valued characteristic; they assume a sizable proportion of people in the target market either have it or want to have it.

When motives are used to segment a market, the market is divided according to consumers' reasons for making a purchase. Personal appearance, affiliation, status, safety, and health are examples of motives affecting the types of products purchased and the choice of stores in which they are bought. Marketing efforts based on health and fitness motives can be a point of competitive advantage. For instance, Denny's recently expanded its menus to include new "light" options for health-conscious consumers. These options are referred to as "Better For You" choices and include egg whites, turkey bacon, chicken sausage, wheat pancakes, veggie burgers, and grilled fish. This expansion of its menus allows Denny's to offer its customers more than 200 ways to dine for less than 550 calories.¹⁴

Lifestyle segmentation groups individuals according to how they spend their time, the importance of things in their surroundings (homes or jobs, for example), beliefs about themselves and broad issues, and some demographic characteristics, such as income and education.¹⁵ Lifestyle analysis provides a broad view of buyers because it encompasses

numerous characteristics related to people's activities (work, hobbies, entertainment, sports), interests (family, home, fashion, food, technology), and opinions (politics, social issues, education, the future).

One of the most popular lifestyle frameworks is VALS™ from Strategic Business Insights (SBI), a spin-out of SRI International. VALS classifies consumers based on psychological characteristics (personality characteristics) that are correlated with purchase behavior and key demographics. The VALS classification questionnaire, which is used to determine a consumers' VALS type, can be integrated into larger questionnaires to find out about consumers' lifestyle choices. Figure 5.6 is an example of VALS data that shows the proportion of each VALS group that purchased a mountain bike, purchased golf clubs, owns a fishing rod, or goes hunting. VALS research is also used to create new products as well as to segment existing markets. VALS systems have been developed for the United States, Japan, the United Kingdom, Venezuela, and the Dominican Republic, and work on VALS in China has begun.¹⁶

Behavioristic Variables

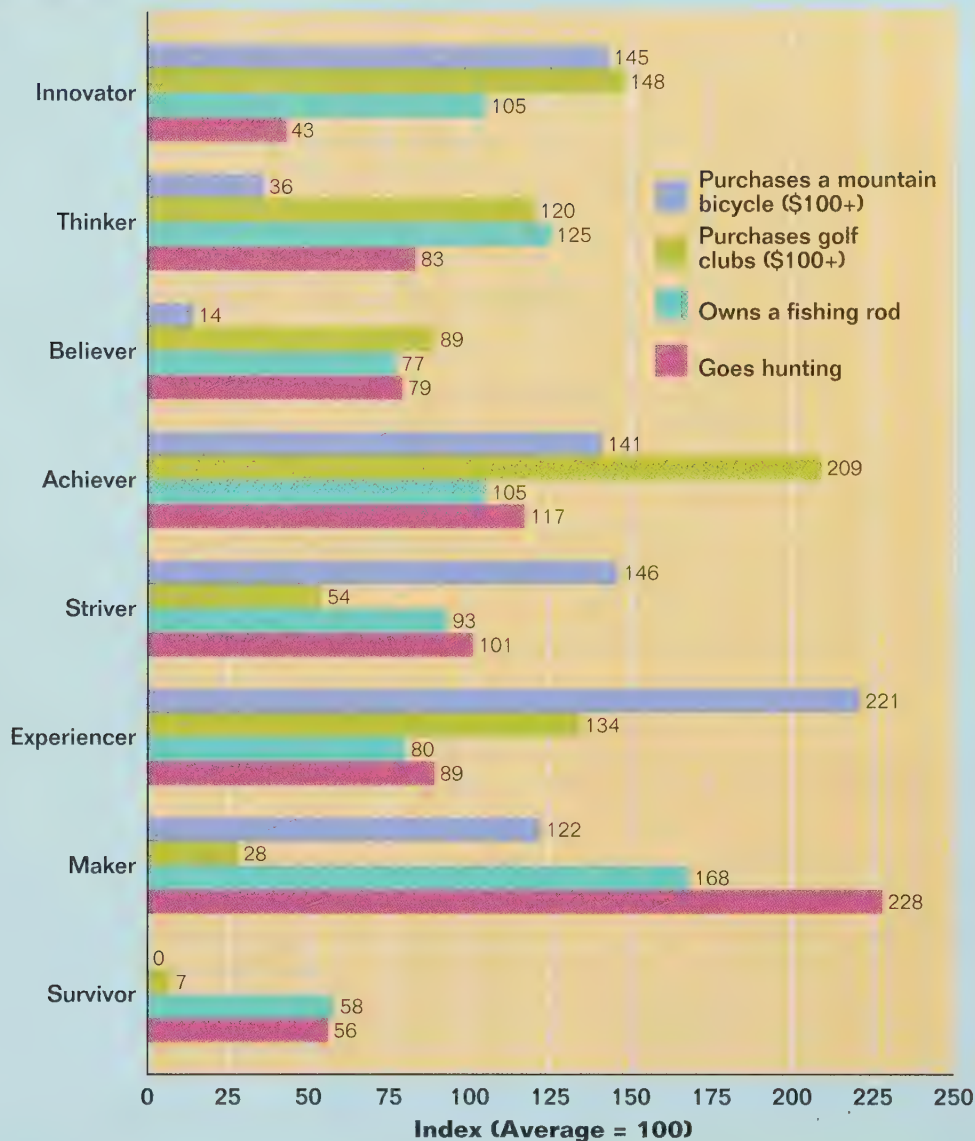
Firms can divide a market according to some feature of consumer behavior toward a product, commonly involving some aspect of product use. For example, a market may be separated into users—classified as heavy, moderate, or light—and nonusers. To satisfy a specific group, such as heavy users, marketers may create a distinctive product, set special prices, or initiate special

Collect something other than baggage fees and hotel bills.
MEMORIES, PERHAPS.



Lifestyle Segmentation

Lifestyle segmentation is based on people's activities, interests, and opinions.

FIGURE 5.6 VALS Types and Sports Preferences

Source: VALS™/GfK MRI Survey of the American Consumer, Strategic Business Insights (SBI), www.strategicbusinessinsights.com/VALS. Reprinted with permission.

promotion and distribution activities. Per capita consumption data help identify different levels of usage.

How customers use or apply products may also determine the method of segmentation. To satisfy customers who use a product in a certain way, some feature—say, packaging, size, texture, or color—may be designed precisely to make the product easier to use, safer, or more convenient.

Benefit segmentation is the division of a market according to benefits that consumers want from the product. Although most types of market segmentation assume a relationship between the variable and customers' needs, benefit segmentation differs in that the benefits customers seek *are* their product needs. Consider that a customer who purchases over-the-counter cold relief medication may be specifically interested in two benefits: stopping a runny nose and relieving chest congestion. Thus, individuals are segmented directly according to

benefit segmentation

The division of a market according to benefits that consumers want from the product

their needs. By determining the desired benefits, marketers may be able to divide people into groups seeking certain sets of benefits. The effectiveness of such segmentation depends on three conditions: (1) the benefits sought must be identifiable; (2) using these benefits, marketers must be able to divide people into recognizable segments; and (3) one or more of the resulting segments must be accessible to the firm's marketing efforts. Both Timberland and Avia, for example, segment the foot apparel market based on benefits sought.

As this discussion shows, consumer markets can be divided according to numerous characteristics. Business markets are segmented using different variables, as we will see in the following section.

VARIABLES FOR SEGMENTING BUSINESS MARKETS

Like consumer markets, business markets are frequently segmented, often by multiple variables in combination. Marketers segment business markets according to geographic location, type of organization, customer size, and product use.

Geographic Location

Earlier we noted that the demand for some consumer products can vary considerably among geographic areas because of differences in climate, terrain, customer preferences, and similar factors. Demand for business products also varies according to geographic location. For instance, producers of certain types of lumber divide their markets geographically because their customers' needs vary from region to region. Geographic segmentation may be especially appropriate for reaching industries concentrated in certain locations. Furniture and textile producers, for example, are concentrated in the Southeast.

Entrepreneurship in Marketing



Foursquare and Location-Based Digital Targeting

Foursquare and its competitors are the new darlings of the digital targeting world. If you've ever vied to be "mayor" of a restaurant or other site, you know how Foursquare works: participants use their smartphones to "check in" at various locations, letting friends know where they are and becoming eligible for special offers from marketers at those locations.

Foursquare got its start at Dennis Crowley's kitchen table. He and cofounder Naveen Selvadurai wrote the software in Crowley's New York City apartment and launched the new service in March 2009. It didn't take long for Foursquare to touch off a location-based digital targeting frenzy that attracted competition from Facebook Places, Gowalla, and others. Today, fast-growing Foursquare makes money from deals with brands that want to reach the company's 5 million users. Also, its founders help budding online entrepreneurs through mentoring and internship programs in Foursquare's hometown of New York City.^b

Type of Organization

A company sometimes segments a market by types of organizations within that market. Different types of organizations often require different product features, distribution systems, price structures, and selling strategies. Given these variations, a firm may either concentrate on a single segment with one marketing mix (a concentration targeting strategy) or focus on several groups with multiple mixes (a differentiated targeting strategy). A carpet producer, for example, could segment potential customers into several groups, such as automobile makers, commercial carpet contractors (firms that carpet large commercial buildings), apartment complex developers, carpet wholesalers, and large retail carpet outlets.

Customer Size

An organization's size may affect its purchasing procedures and the types and quantities of products it wants. Size can thus be an effective variable for segmenting a business market. To reach a segment of a particular size, marketers may have to adjust one or more marketing mix components. For example, customers who buy in extremely large quantities are sometimes offered discounts. In addition, marketers often must expand personal selling efforts to serve large organizational buyers properly. Because the needs of large and small buyers

tend to be quite distinct, marketers frequently use different marketing practices to reach various customer groups.

Product Use

Certain products, especially basic raw materials like steel, petroleum, plastics, and lumber, are used in numerous ways. How a company uses products affects the types and amounts of products purchased, as well as the purchasing method. Consider computers, which are used for engineering purposes, basic scientific research, and business operations such as word processing, accounting, and telecommunications. A computer maker, therefore, may segment the computer market by types of use because organizations' needs for computer hardware and software depend on the purpose for which products are purchased.

Step 3: Develop Market Segment Profiles

A market segment profile describes the similarities among potential customers within a segment and explains the differences among people and organizations in different segments. A profile may cover such aspects as demographic characteristics, geographic factors, product benefits sought, lifestyles, brand preferences, and usage rates. Individuals and organizations within segments should be relatively similar with respect to several characteristics and product needs and differ considerably from those within other market segments. Marketers use market segment profiles to assess the degree to which their possible products can match or fit potential customers' product needs. Market segment profiles help marketers understand how a business can use its capabilities to serve potential customer groups.

The use of market segment profiles benefits marketers in several ways. Such profiles help a marketer determine which segment or segments are most attractive to the organization relative to the firm's strengths, weaknesses, objectives, and resources. Although marketers may initially believe certain segments are quite attractive, development of market segment profiles

Emerging Trends in Marketing



PepsiCo Tantalizes Taste Buds of Target Markets

PepsiCo, the world's leading snack marketer, aims to gobble up more market share through careful segmentation and targeting. Among its pantry of brands, 19 are already billion-dollar businesses, including Pepsi-Cola, Diet Pepsi, and Mountain Dew soft drinks, as well as Lay's, Doritos, and Tostitos chips.

One global segment that PepsiCo's marketers have identified is consumers interested in healthier eating. In response, PepsiCo is now reducing the level of salt in many snacks for

this segment. It is also lightening up on fats and sugar and making nutrition labeling more prominent. "What we want to do with our 'fun for you' products is to make them the healthiest 'fun for you' products," says the CEO.

In addition, PepsiCo segments its markets based on the flavor preferences of each country's customers. For example, when catering to Russian palates, it offers Lay's chips flavored with red caviar. In China, its soft drinks feature herbs that local customers favor. What taste buds will PepsiCo target next?

may yield information that indicates the opposite. For the market segment or segments chosen by the organization, the information included in market segment profiles can be highly useful in making marketing decisions.

Step 4: Evaluate Relevant Market Segments

After analyzing the market segment profiles, a marketer is likely to identify several relevant market segments that require further analysis and eliminate certain segments from consideration. To further assess relevant market segments, several important factors, including sales estimates, competition, and estimated costs associated with each segment, should be analyzed.

SALES ESTIMATES

Potential sales for a market segment can be measured along several dimensions, including product level, geographic area, time, and level of competition.¹⁷ With respect to product level, potential sales can be estimated for a specific product item (e.g., Diet Coke) or an entire product line (Coca-Cola Classic, Caffeine-Free Coke, Diet Coke, Caffeine-Free Diet Coke, Vanilla Coke, Diet Vanilla Coke, Cherry Coke, and Diet Cherry Coke comprise one product line). A manager must also determine the geographic area to include in the estimate. In relation to time, sales estimates can be short range (one year or less), medium range (one to five years), or long range (longer than five years). The competitive level specifies whether sales are being estimated for a single firm or for an entire industry.

Market potential is the total amount of a product that customers will purchase within a specified period at a specific level of industrywide marketing activity. Market potential can be stated in terms of dollars or units. A segment's market potential is affected by economic, sociocultural, and other environmental forces. Marketers must assume a certain general level of marketing effort in the industry when they estimate market potential. The specific level of marketing effort varies from one firm to another, but the sum of all firms' marketing activities equals industrywide marketing efforts. A marketing manager must also consider whether and to what extent industry marketing efforts will change.

Company sales potential is the maximum percentage of market potential that an individual firm within an industry can expect to obtain for a specific product. Several factors influence company sales potential for a market segment. First, the market potential places absolute limits on the size of the company's sales potential. Second, the magnitude of industrywide marketing activities has an indirect but definite impact on the company's sales potential. Those activities have a direct bearing on the size of the market potential. When Domino's Pizza advertises home-delivered pizza, for example, it indirectly promotes pizza in general; its commercials may indirectly help sell Pizza Hut's and other competitors' home-delivered pizza. Third, the intensity and effectiveness of a company's marketing activities relative to competitors' affect the size of the company's sales potential. If a company spends twice as much as any of its competitors on marketing efforts and if each dollar spent is more effective in generating sales, the firm's sales potential will be quite high compared to competitors'.

Two general approaches that measure company sales potential are breakdown and buildup. In the **breakdown approach**, the marketing manager first develops a general economic forecast for a specific time period. Next, the manager estimates market potential based on this economic forecast. Then the manager derives the company's sales potential from the general economic forecast and estimate of market potential. In the **buildup approach**, the marketing manager begins by estimating how much of a product a potential buyer in a

market potential

The total amount of a product that customers will purchase within a specified period at a specific level of industrywide marketing activity

company sales potential

The maximum percentage of market potential that an individual firm within an industry can expect to obtain for a specific product

breakdown approach

Measuring company sales potential based on a general economic forecast for a specific period and the market potential derived from it

buildup approach

Measuring company sales potential by estimating how much of a product a potential buyer in a specific geographic area will purchase in a given period, multiplying the estimate by the number of potential buyers, and adding the totals of all the geographic areas considered

specific geographic area, such as a sales territory, will purchase in a given period. The manager then multiplies that amount by the total number of potential buyers in that area. The manager performs the same calculation for each geographic area in which the firm sells products and then adds the totals for each area to calculate market potential. To determine company sales potential, the manager must estimate, based on planned levels of company marketing activities, the proportion of the total market potential the company can obtain.

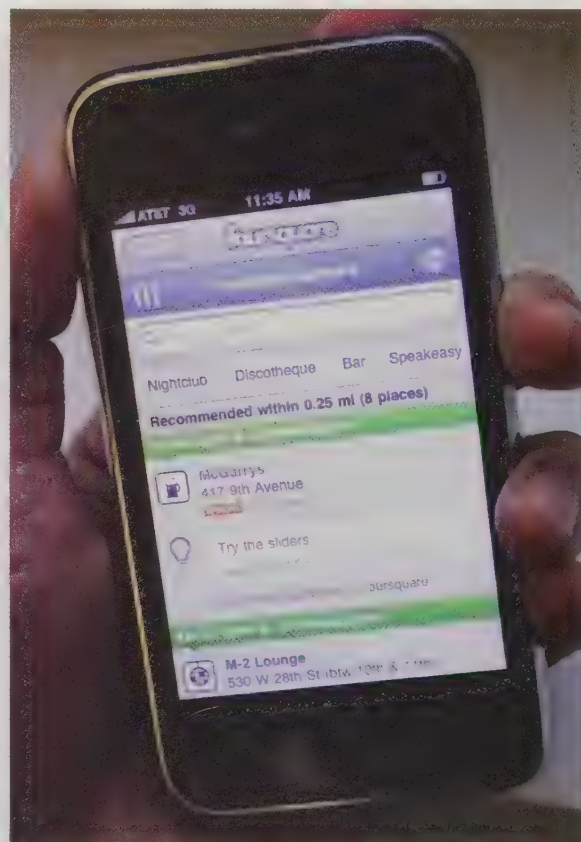
COMPETITIVE ASSESSMENT

Besides obtaining sales estimates, it is crucial to assess competitors that are already operating in the segments being considered. Without competitive information, sales estimates may be misleading. A market segment that initially seems attractive based on sales estimates may turn out to be much less so after a competitive assessment. Such an assessment should ask several questions about competitors: How many exist? What are their strengths and weaknesses? Do several competitors have major market shares and together dominate the segment? Can our company create a marketing mix to compete effectively against competitors' marketing mixes? Is it likely that new competitors will enter this segment? If so, how will they affect our firm's ability to compete successfully? Answers to such questions are important for proper assessment of the competition in potential market segments.

The actions of a national food company that considered entering the dog food market illustrate the importance of competitive assessment. Through a segmentation study, the company determined that dog owners could be divided into three segments according to how they viewed their dogs and dog foods. One group treated their dogs as companions and family members. These individuals were willing to pay relatively high prices for dog foods and wanted a variety of types and flavors so their dogs would not get bored. The second group saw their dogs as performing a definite utilitarian function, such as protecting family members, playing with children, guarding the property, or herding farm animals. These people wanted a low-priced, nutritious dog food and were not interested in a wide variety of flavors. Dog owners in the third segment were found to actually hate their dogs. These people wanted the cheapest dog food they could buy and were not concerned with nutrition, flavor, or variety. The food company examined the extent to which competitive brands were serving all these dog owners and found that each segment contained at least three well-entrenched competing brands, which together dominated the segment. The company's management decided not to enter the dog food market because of the strength of the competing brands.

COST ESTIMATES

To fulfill the needs of a target segment, an organization must develop and maintain a marketing mix that precisely meets the wants and needs of individuals and organizations in that segment. Developing and maintaining such a mix can be expensive. Distinctive product features, attractive package design, generous product warranties, extensive advertising, attractive promotional offers, competitive prices, and high-quality personal service consume considerable organizational resources.



AP Images/Mark Lemmihan

Precision and Cost Reduction

Marketers benefit from technology, such as Foursquare, that allows them to more precisely reach customers at lower costs.

Indeed, to reach certain segments, the costs may be so high that a marketer concludes the segment is inaccessible. Another cost consideration is whether the organization can effectively reach a segment at costs equal to or below competitors' costs. If the firm's costs are likely to be higher, it will be unable to compete in that segment in the long run. For example, when Microsoft considered entering the MP3 market, the company had to consider its very strong competitor, the Apple iPod. The Microsoft Zune was created to be competition for the iPod, including additional features like access to FM radio and the ability to wirelessly share songs with other Zune users. Microsoft also had to consider its cost when deciding to take this product to market; for the Zune, it was important to position it as a cheaper substitute to the iPod. In order for Microsoft to accomplish this objective, it was forced to keep the Zune's production costs at a low level, which eventually caused the company to stop developing new Zune MP3 players and focus more on its Zune music software.¹⁸

Step 5: Select Specific Target Markets

An important initial consideration in selecting a target market is whether customers' needs differ enough to warrant the use of market segmentation. If segmentation analysis shows customer needs to be fairly homogeneous, the firm's management may decide to use the undifferentiated approach, discussed earlier. However, if customer needs are heterogeneous, which is much more likely, one or more target markets must be selected. On the other hand, marketers may decide not to enter and compete in any of the segments.

Assuming one or more segments offer significant opportunities to achieve organizational objectives, marketers must decide in which segments to participate. Ordinarily information gathered in the previous step—about sales estimates, competitors, and cost estimates—requires careful consideration in this final step to determine long-term profit opportunities. Also, the firm's management must investigate whether the organization has the financial resources, managerial skills, employee expertise, and facilities to enter and compete effectively in selected segments. Furthermore, the requirements of some market segments may be at odds with the firm's overall objectives, and the possibility of legal problems, conflicts with interest groups, and technological advancements could make certain segments unattractive. In addition, when prospects for long-term growth are taken into account, some segments may appear very attractive and others less desirable.

Selecting appropriate target markets is important to an organization's adoption and use of the marketing concept philosophy. Identifying the right target market is the key to implementing a successful marketing strategy, whereas failure to do so can lead to low sales, high costs, and severe financial losses. A careful target market analysis places an organization in a better position to both serve customers' needs and achieve its objectives.

Marketing Debate



Should Fast-Food Marketers Target Children?

ISSUE: *Is it ethical for fast-food businesses to market unhealthy food to children?*

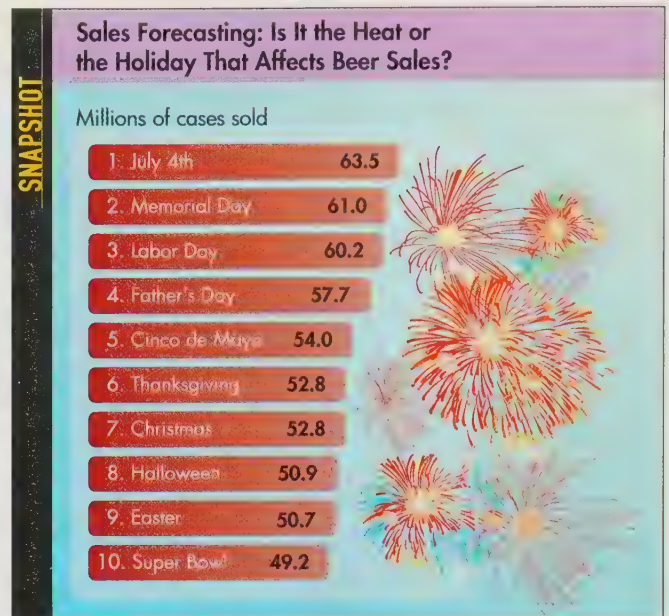
Fast food is so much a part of children's lives that, according to a Yale University study, 40 percent of U.S. youngsters aged 2 to 11 ask to go to McDonald's at least once a week. Research shows that preschoolers prefer snacks presented in fast-food packaging to the same items presented in nonbranded packaging. No wonder critics worry that young fast-food fans may become part of the U.S. obesity epidemic. They also argue that nutritional foods can't compete with the big advertising budgets of major fast-food marketers.

For their part, the restaurants say they offer healthy menu options, and their customers should be able to choose. Subway, for example, automatically bundles apple slices and juice or milk with its children's meals. Now regulators are getting involved. San Francisco doesn't allow toys in fast-food meals that fail to meet minimum nutritional standards. And many states require fast-food outlets to post calorie counts so parents can make educated choices for their kids.^d

Developing Sales Forecasts

After a company targets its market, it needs a **sales forecast**—the amount of a product the company expects to sell during a specific period at a specified level of marketing activities. The sales forecast differs from the company sales potential. It concentrates on what actual sales will be at a certain level of company marketing effort, whereas the company sales potential assesses what sales are possible at various levels of marketing activities, assuming certain environmental conditions will exist. Businesses use the sales forecast for planning, organizing, implementing, and controlling their activities. The success of numerous activities depends on this forecast's accuracy. Common problems in failing companies are improper planning and lack of realistic sales forecasts. Overly ambitious sales forecasts can lead to overbuying, overinvestment, and higher costs.

To forecast sales, a marketer can choose from a number of forecasting methods, some arbitrary and others more scientific, complex, and time consuming. A firm's choice of method or methods depends on the costs involved, type of product, market characteristics, time span of the forecast, purposes of the forecast, stability of the historical sales data, availability of required information, managerial preferences, and forecasters' expertise and experience.¹⁹ Common forecasting techniques fall into five categories: executive judgment, surveys, time series analysis, regression analysis, and market tests.



Source: "9 in 10 Will Watch Super Bowl at Home; Most will Spend the Same or Less on Food and Bev," Nielsen Wire, February 1, 2010, <http://blog.nielsen.com/nielsenwire/consumer/9-in-10-will-watch-super-bowl-at-home-most-will-spend-the-same-or-less-on-food-and-bev/>.

EXECUTIVE JUDGMENT

At times, a company forecasts sales chiefly on the basis of **executive judgment**: the intuition of one or more executives. This approach is unscientific but expedient and inexpensive. Executive judgment may work reasonably well when product demand is relatively stable and the forecaster has years of market-related experience. However, because intuition is swayed most heavily by recent experience, the forecast may be overly optimistic or overly pessimistic. Another drawback to intuition is that the forecaster has only past experience as a guide for deciding where to go in the future.

SURVEYS

Another way to forecast sales is to question customers, sales personnel, or experts regarding their expectations about future purchases. In a **customer forecasting survey**, marketers ask customers what types and quantities of products they intend to buy during a specific period. This approach may be useful to a business with relatively few customers. Consider Intel, which markets to a limited number of companies (primarily computer manufacturers). Intel could conduct customer forecasting surveys effectively. PepsiCo, in contrast, has millions of customers and could not feasibly use a customer survey to forecast future sales.

In a **sales force forecasting survey**, the firm's salespeople estimate anticipated sales in their territories for a specified period. The forecaster combines these territorial estimates to arrive at a tentative forecast. A marketer may survey the sales staff for several reasons. The most important is that the sales staff is closer to customers on a daily basis than other

sales forecast

The amount of a product a company expects to sell during a specific period at a specified level of marketing activities

executive judgment

A sales forecasting method based on the intuition of one or more executives

customer forecasting survey

A survey of customers regarding the types and quantities of products they intend to buy during a specific period

sales force forecasting survey

A survey of a firm's sales force regarding anticipated sales in their territories for a specified period

Surveys

A business organization can obtain the services of other organizations, like salesforce.com, to help with sales forecasting efforts by conducting surveys.



Jochen Siegle/Newscom

company personnel and therefore should know more about customers' future product needs. Moreover, when sales representatives assist in developing the forecast, they are more likely to work toward its achievement. In addition, forecasts can be prepared for single territories, divisions consisting of several territories, regions made up of multiple divisions, and the total geographic market. Thus, the method provides sales forecasts from the smallest geographic sales unit to the largest.

When a company wants an **expert forecasting survey**, it hires professionals to help prepare the sales forecast. These experts are usually economists, management consultants, advertising executives, college professors, or other individuals outside the firm with solid experience in a specific market. Drawing on this experience and their analyses of available information about the company and the market, experts prepare and present forecasts or answer questions regarding a forecast. Using experts is expedient and relatively inexpensive. However, because they work outside the firm, these forecasters may be less motivated than company personnel to do an effective job.

A more complex form of the expert forecasting survey incorporates the Delphi technique. In the **Delphi technique**, experts create initial forecasts, submit them to the company for averaging, and have the results returned to them so they can make individual refined forecasts. The premise is that the experts will use the averaged results when making refined forecasts and these forecasts will be in a narrower range. The procedure may be repeated several times until the experts, each working separately, reach a consensus on the forecasts. The ultimate goal in using the Delphi technique is to develop a highly accurate sales forecast.

TIME SERIES ANALYSIS

With **time series analysis**, the forecaster uses the firm's historical sales data to discover a pattern or patterns in the firm's sales over time. If a pattern is found, it can be used to

expert forecasting survey

Sales forecasts prepared by experts outside the firm, such as economists, management consultants, advertising executives, or college professors

Delphi technique

A procedure in which experts create initial forecasts, submit them to the company for averaging, and then refine the forecasts

time series analysis

A forecasting method that uses historical sales data to discover patterns in the firm's sales over time and generally involves trend, cycle, seasonal, and random factor analyses

forecast sales. This forecasting method assumes that past sales patterns will continue in the future. The accuracy, and thus usefulness, of time series analysis hinges on the validity of this assumption.

In a time series analysis, a forecaster usually performs four types of analyses: trend, cycle, seasonal, and random factor. **Trend analysis** focuses on aggregate sales data, such as the company's annual sales figures, covering a period of many years to determine whether annual sales are generally rising, falling, or staying about the same. Through **cycle analysis**, a forecaster analyzes sales figures (often monthly sales data) for a three- to five-year period to ascertain whether sales fluctuate in a consistent, periodic manner. When performing a **seasonal analysis**, the analyst studies daily, weekly, or monthly sales figures to evaluate the degree to which seasonal factors, such as climate and holiday activities, influence sales. In a **random factor analysis**, the forecaster attempts to attribute erratic sales variations to random, nonrecurrent events, such as a regional power failure, a natural disaster, or political unrest in a foreign market. After performing each of these analyses, the forecaster combines the results to develop the sales forecast. Time series analysis is an effective forecasting method for products with reasonably stable demand, but not for products with highly erratic demand.

REGRESSION ANALYSIS

Like time series analysis, regression analysis requires the use of historical sales data. In **regression analysis**, the forecaster seeks to find a relationship between past sales (the dependent variable) and one or more independent variables, such as population, per capita income, or gross domestic product. Simple regression analysis uses one independent variable, whereas multiple regression analysis includes two or more independent variables. The objective of regression analysis is to develop a mathematical formula that accurately describes a relationship between the firm's sales and one or more variables; however, the formula indicates only an association, not a causal relationship. Once an accurate formula is established, the analyst plugs the necessary information into the formula to derive the sales forecast.

Regression analysis is useful when a precise association can be established. However, a forecaster seldom finds a perfect correlation. Furthermore, this method can be used only when available historical sales data are extensive. Thus, regression analysis is futile for forecasting sales of new products.

MARKET TESTS

A **market test** involves making a product available to buyers in one or more test areas and measuring purchases and consumer responses to distribution, promotion, and price. Test areas are often cities with populations of 200,000 to 500,000, but they can be larger metropolitan areas or towns with populations of 50,000 to 200,000.

A market test provides information about consumers' actual rather than intended purchases. In addition, purchase volume can be evaluated in relation to the intensity of other marketing activities such as advertising, in-store promotions, pricing, packaging, and distribution. Motorola conducted market tests for its new Mobile Loyalty Solution service in Raleigh, North Carolina, before launching the program nationwide a couple of months later. The company hopes that its new service, which allows retailers to send offers and coupons to customers' mobile phones, will eliminate the need for membership cards and paper coupons and replace it with a digital system that is easier to use, faster, and more environmentally friendly. However, the company needed to assess consumer reaction to the service beforehand.²⁰ Forecasters base their sales estimates for larger geographic units on customer response in test areas.

trend analysis

An analysis that focuses on aggregate sales data over a period of many years to determine general trends in annual sales

cycle analysis

An analysis of sales figures for a three- to five-year period to ascertain whether sales fluctuate in a consistent, periodic manner

seasonal analysis

An analysis of daily, weekly, or monthly sales figures to evaluate the degree to which seasonal factors influence sales

random factor analysis

An analysis attempting to attribute erratic sales variations to random, nonrecurrent events

regression analysis

A method of predicting sales based on finding a relationship between past sales and one or more independent variables, such as population or income

market test

Making a product available to buyers in one or more test areas and measuring purchases and consumer responses to marketing efforts

Because it does not require historical sales data, a market test is effective for forecasting sales of new products or sales of existing products in new geographic areas. A market test also gives a marketer an opportunity to test various elements of the marketing mix. However, these tests are often time consuming and expensive. In addition, a marketer cannot be certain that consumer response during a market test represents the total market response or that such a response will continue in the future.

USING MULTIPLE FORECASTING METHODS

Although some businesses depend on a single sales forecasting method, most firms use several techniques. Sometimes a company is forced to use multiple methods when marketing diverse product lines, but even a single product line may require several forecasts, especially when the product is sold to different market segments. Thus, a producer of automobile tires may rely on one technique to forecast tire sales for new cars and on another to forecast sales of replacement tires. Variation in the length of needed forecasts may call for several forecasting methods. A firm that employs one method for a short-range forecast may find it inappropriate for long-range forecasting. Sometimes a marketer verifies results of one method by using one or more other methods and comparing outcomes.

CHAPTER REVIEW

1 Learn about *markets*.

A market is a group of people who, as individuals or as organizations, have needs for products in a product class and have the ability, willingness, and authority to purchase such products. Markets can be categorized as consumer markets or business markets based on the characteristics of the individuals and groups that make up a specific market and the purposes for which they buy products. A consumer market, also known as a *business-to-consumer (B2C) market*, consists of purchasers and household members who intend to consume or benefit from the purchased products and do not buy products for the main purpose of making a profit. A business market, also known as *business-to-business (B2B)*, *industrial*, or *organizational market*, consists of individuals or groups that purchase a specific kind of product for one of three purposes: resale, direct use in producing other products, or use in general daily operations.

2 Understand the differences among general targeting strategies.

In general, marketers employ a five-step process when selecting a target market. Step 1 is to identify the appropriate targeting strategy. When a company designs a single marketing mix and directs it

at the entire market for a particular product, it is using an undifferentiated targeting strategy. The undifferentiated strategy is effective in a homogeneous market, whereas a heterogeneous market needs to be segmented through a concentrated targeting strategy or a differentiated targeting strategy. Both these strategies divide markets into segments consisting of individuals, groups, or organizations that have one or more similar characteristics and thus can be linked to similar product needs. When using a concentrated strategy, an organization directs marketing efforts toward a single market segment through one marketing mix. With a differentiated targeting strategy, an organization directs customized marketing efforts at two or more segments.

Certain conditions must exist for effective market segmentation. First, customers' needs for the product should be heterogeneous. Second, the segments of the market should be identifiable and divisible. Third, the total market should be divided so segments can be compared with respect to estimated sales, costs, and profits. Fourth, at least one segment must have enough profit potential to justify developing and maintaining a special marketing mix for that segment. Fifth, the firm must be able to reach the chosen segment with a particular marketing mix.

3 Become familiar with the major segmentation variables.

Step 2 is determining which segmentation variables to use. Segmentation variables are the characteristics of individuals, groups, or organizations used to divide a total market into segments. The segmentation variable should relate to customers' needs for, uses of, or behavior toward the product. Segmentation variables for consumer markets can be grouped into four categories: demographic (e.g., age, gender, income, ethnicity, family life cycle), geographic (population, market density, climate), psychographic (personality traits, motives, lifestyles), and behavioristic (volume usage, end use, expected benefits, brand loyalty, price sensitivity). Variables for segmenting business markets include geographic location, type of organization, customer size, and product use.

4 Know what segment profiles are and how they are used.

Step 3 in the target market selection process is to develop market segment profiles. Such profiles describe the similarities among potential customers within a segment and explain the differences among people and organizations in different market segments. They are used to assess the degree to which the firm's products can match potential customers' product needs. Segments, which may seem at first quite attractive, may be shown to be quite the opposite after a market segment profile is completed.

5 Understand how to evaluate market segments.

Step 4 is evaluating relevant market segments. Marketers analyze several important factors, such as sales estimates, competition, and estimated costs associated with each segment. Potential sales for a market segment can be measured along several dimensions, including product level, geographic area, time, and level of competition. Besides obtaining sales estimates, it is crucial to assess competitors that are already operating in the segments being considered. Without competitive information, sales estimates may be misleading. The cost of developing a marketing mix which meets the wants

and needs of individuals in that segment must also be considered. If the firm's costs to compete in that market are very high, it may be unable to compete in that segment in the long run.

6 Identify the factors that influence the selection of specific market segments for use as target markets.

Step 5 involves the actual selection of specific target markets. In this final step, the company considers whether customers' needs differ enough to warrant segmentation and which segments to target. If customers' needs are heterogeneous, the decision must be made which segment to target, or whether to enter the market at all. Considerations such as resources, managerial skills, employee expertise, facilities, the firm's overall objectives, possible legal problems, conflicts with interest groups, and technological advancements must be considered when deciding which segments to target.

7 Become familiar with sales forecasting methods.

A sales forecast is the amount of a product the company actually expects to sell during a specific period at a specified level of marketing activities. To forecast sales, marketers can choose from a number of methods. The choice depends on various factors, including the costs involved, type of product, market characteristics, and time span and purposes of the forecast. There are five categories of forecasting techniques: executive judgment, surveys, time series analysis, regression analysis, and market tests. Executive judgment is based on the intuition of one or more executives. Surveys include customer, sales force, and expert forecasting surveys. Time series analysis uses the firm's historical sales data to discover patterns in the firm's sales over time and employs four major types of analyses: trend, cycle, seasonal, and random factor. With regression analysis, forecasters attempt to find a relationship between past sales and one or more independent variables. Market testing involves making a product available to buyers in one or more test areas and measuring purchases and consumer responses to distribution, promotion, and price. Many companies employ multiple forecasting methods.

ONLINE RESOURCES

Please visit the student website at www.cengagebrain.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

consumer market 119	market density 129	sales force forecasting survey 137
business market 120	geodemographic segmentation 129	expert forecasting survey 138
undifferentiated targeting strategy 120	micromarketing 129	Delphi technique 138
homogeneous market 122	benefit segmentation 131	time series analysis 138
heterogeneous market 122	market potential 134	trend analysis 139
market segmentation 122	company sales potential 134	cycle analysis 139
market segment 122	breakdown approach 134	seasonal analysis 139
concentrated targeting strategy 123	buildup approach 134	random factor analysis 139
differentiated targeting strategy 123	sales forecast 137	regression analysis 139
segmentation variables 124	executive judgment 137	market test 139
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ISSUES FOR DISCUSSION AND REVIEW

1. What is a market? What are the requirements for a market?
2. In your local area, identify a group of people with unsatisfied product needs who represent a market. Could this market be reached by a business organization? Why or why not?
3. Outline the five major steps in the target market selection process.
4. What is an undifferentiated strategy? Under what conditions is it most useful? Describe a present market situation in which a company is using an undifferentiated strategy. Is the business successful? Why or why not?
5. What is market segmentation? Describe the basic conditions required for effective segmentation. Identify several firms that use market segmentation.
6. List the differences between concentrated and differentiated strategies, and describe the advantages and disadvantages of each.
7. Identify and describe four major categories of variables that can be used to segment consumer markets. Give examples of product markets that are segmented by variables in each category.
8. What dimensions are used to segment business markets?
9. Define *geodemographic segmentation*. Identify several types of firms that might employ this type of market segmentation, and explain why.
10. What is a market segment profile? Why is it an important step in the target market selection process?
11. Describe the important factors that marketers should analyze to evaluate market segments.
12. Why is a marketer concerned about sales potential when trying to select a target market?
13. Why is selecting appropriate target markets important for an organization that wants to adopt the marketing concept philosophy?
14. What is a sales forecast? Why is it important?
15. What are the two primary types of surveys a company might use to forecast sales? Why would a company use an outside expert forecasting survey?
16. Under what conditions are market tests useful for sales forecasting? What are the advantages and disadvantages of market tests?
17. Under what conditions might a firm use multiple forecasting methods?

MARKETING APPLICATIONS

1. Cable channels such as Lifetime and Spike TV each target a specific market segment. Identify another product marketed to a distinct target market. Describe the target market, and explain how the marketing mix appeals specifically to that group.
2. Generally, marketers use one of three basic targeting strategies to focus on a target market: undifferentiated, concentrated, or differentiated. Locate an article that discusses the target market for a specific product. Describe the target market, and explain the targeting strategy used to reach that target market.
3. The car market may be segmented according to income and age. Discuss two ways the market for each of the following products might be segmented.
 - a. Candy bars
 - b. Travel services
 - c. Bicycles
 - d. Cell phones
4. If you were using a time series analysis to forecast sales for your company for the next year, how would you use the following sets of sales figures?

a. 2001	\$145,000	2006	\$149,000
2002	\$144,000	2007	\$148,000
2003	\$147,000	2008	\$180,000
2004	\$145,000	2009	\$191,000
2005	\$148,000	2010	\$227,000

b.	2008	2009	2010
Jan.	\$12,000	\$14,000	\$16,000
Feb.	\$13,000	\$14,000	\$15,500
Mar.	\$12,000	\$14,000	\$17,000
Apr.	\$13,000	\$15,000	\$17,000
May	\$15,000	\$17,000	\$20,000
June	\$18,000	\$18,000	\$21,000
July	\$18,500	\$18,000	\$21,500
Aug.	\$18,500	\$19,000	\$22,000
Sep.	\$17,000	\$18,000	\$21,000
Oct.	\$16,000	\$15,000	\$19,000
Nov.	\$13,000	\$14,000	\$19,000
Dec.	\$14,000	\$15,000	\$18,000

- c. In 2008, sales increased 21.2 percent (opened an additional store in 2008). In 2009, sales increased 18.8 percent. New stores were opened in 2008 and 2009.

ONLINE EXERCISE

5. iExplore is an Internet company that offers a variety of travel and adventure products. Learn more about its goods, services, and travel advice through its website at www.iexplore.com.
 - a. Based on the information provided at the website, what are some of iExplore's basic products?
 - b. What market segments does iExplore appear to be targeting with its website? What segmentation variables is the company using to segment these markets?
 - c. How does iExplore appeal to comparison shoppers?

DEVELOPING YOUR MARKETING PLAN

Identifying and analyzing a target market is a major component of formulating a marketing strategy. A clear understanding and explanation of a product's target market is crucial to developing a useful marketing plan. References to various dimensions of a target market are likely to appear in several locations in a marketing plan. To assist you in understanding how information in this chapter relates to the creation of your marketing plan, focus on the following considerations:

1. What type of targeting strategy is being used for your product? Should a different targeting strategy be employed?
2. Select and justify the segmentation variables that are most appropriate for segmenting the market for

your product. If your product is a consumer product, use Figure 5.3 for ideas regarding the most appropriate segmentation variables. If your marketing plan focuses on a business product, review the information in the section entitled "Variables for Segmenting Business Markets."

3. Discuss how your product should be positioned in the minds of customers in the target market relative to the product positions of competitors.

The decisions and discussions of these dimensions should help you to answer some of the questions that are a part of the online *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

RALEIGH WHEELS OUT STEEL BICYCLE MARKETING

From its 19th-century roots as a British bicycle company, Raleigh has developed a worldwide reputation for marketing sturdy, comfortable, steel-frame bicycles. The firm, named for the street in Nottingham, England, where it was originally located, was a trend-setter in designing and manufacturing bicycles. When Raleigh introduced steel-frame bicycles equipped with three-speed gear hubs in 1903, it revolutionized the industry and set off a never-ending race to improve the product's technology. In the pre-auto era, its bicycles became a two-wheeled status symbol for British consumers, and the brand maintained its cachet for decades. Although Raleigh's chopper-style bicycles were hugely popular in the 1970s, international competition and changing consumer tastes have taken a toll during the past few decades.

Now Raleigh markets a wide variety of bicycles to consumers in Europe, Canada, and the United States. Its U.S. division, based in Kent, Washington, has been researching new bicycles for contemporary consumers and developing models that are lighter, faster, and better. Inspired by the European lifestyle and tradition of getting around on bicycles, and its long history in the business, Raleigh is looking to reinvigorate sales and capture a larger share of the \$6 billion U.S. bicycle market.

Raleigh's U.S. marketers have been observing the "messenger market," customers who ride bicycles through downtown streets to deliver documents and small packages to businesses and individuals. They have also noted that many everyday bicycle riders dress casually, in T-shirts and jeans, rather than in special racing outfits designed for speed. Targeting consumers who enjoy riding bicycles as a lifestyle, Raleigh's marketers are focusing on this segment's specific needs and preferences as they develop, price, promote, and distribute new models.

In recent years, Raleigh's marketers have stepped up the practice of bringing demonstration fleets to public places where potential buyers can hop on one of the company's bicycles and pedal for a few minutes. The idea is to allow consumers who

enjoy bicycling to actually experience the fun feeling of riding a Raleigh. The marketers are also fanning out to visit bicycle races and meet bicyclists in cities and towns across America, encouraging discussions about Raleigh and about bicycling in general and seeking feedback about particular Raleigh products.

Listening to consumers, Raleigh's marketers recognized that many had misperceptions about the weight of steel-frame bicycles. Although steel can be quite heavy, Raleigh's bicycles are solid yet light, nimble, and easy to steer. Those who have been on bicycles with steel frames praise the quality of the ride, saying that steel "has a soul," according to market research.

To stay in touch with its target market, Raleigh is increasingly active in social media. It has several thousand fans who visit its Facebook page to see the latest product concepts and post their own photos and comments about Raleigh bicycles. It also uses Twitter to keep customers informed and answer questions about its bicycles and upcoming demonstration events. The company's main blog communicates the latest news about everything from frame design and new bike colors under consideration to product awards and racing activities. It has a separate blog about both the fun and the challenges of commuting by bicycle, a topic in which its customers are intensely interested because so many do exactly that. By listening to customers and showing that it understands the daily lifestyle of its target market, Raleigh is wheeling toward higher sales in a highly competitive marketplace.²¹

QUESTIONS FOR DISCUSSION

1. Of the four categories of variables, which is most important to Raleigh's segmentation strategy, and why?
2. Is there evidence that Raleigh is using end-use or benefit segmentation? Explain.
3. Raleigh sells exclusively through retail dealers, not directly to consumers. How does this affect its ability to segment the bicycle market using geographic variables?

PART 3

CUSTOMER BEHAVIOR AND E-MARKETING

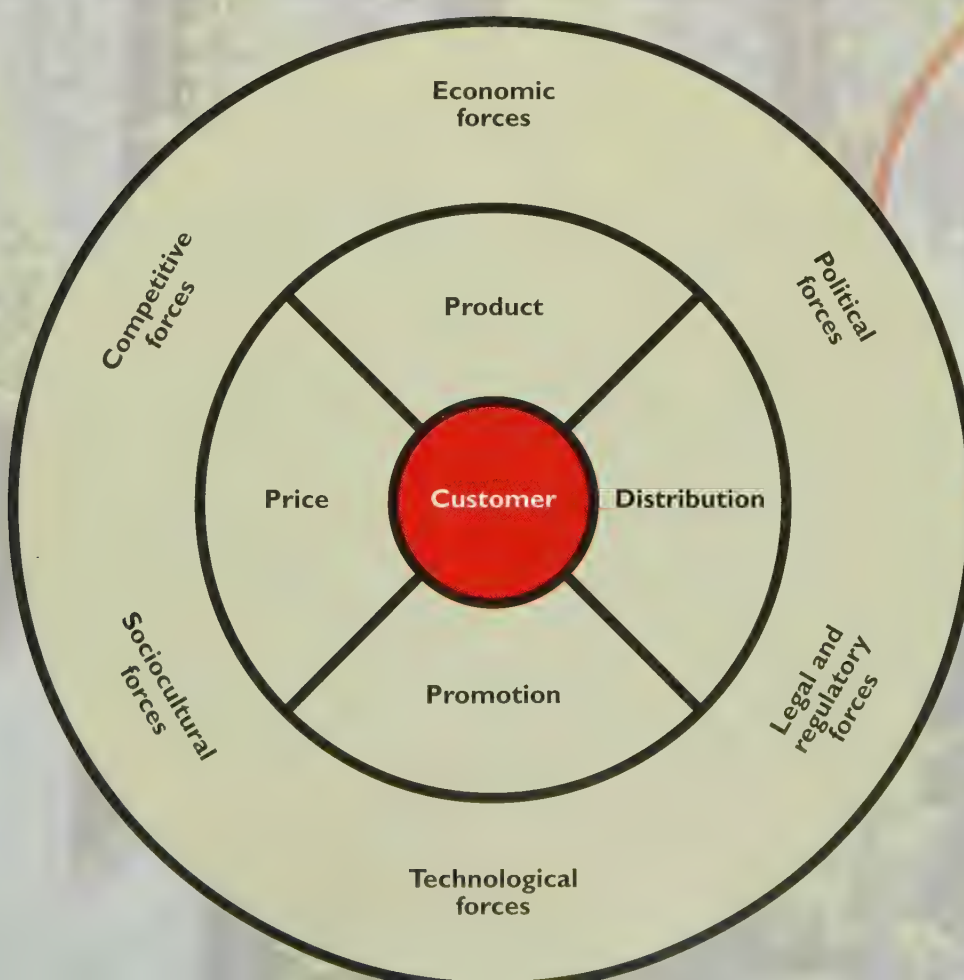
Part 3 continues the focus on the customer. Understanding elements that affect buying decisions enables marketers to analyze customers' needs and evaluate how specific marketing strategies can satisfy those needs. Chapter 6 examines consumer buying decision processes and factors that influence buying decisions. Chapter 7 stresses business markets, organizational buyers, the buying center, and the organizational buying decision process. In Chapter 8, the actions, involvement, and strategies of marketers that serve international customers are considered. Chapter 9 examines digital marketing strategies, new communication channels such as social networking, and customer behavior related to these emerging technologies and trends.

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E-Marketing, Digital
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CHAPTER 6

Consumer Buying Behavior

OBJECTIVES:

- 1 Recognize the stages of the consumer buying decision process.
- 2 Understand the types of consumer decision making and the level of involvement.
- 3 Explore how situational influences may affect the consumer buying decision process.
- 4 Understand the psychological influences that may affect the consumer buying decision process.
- 5 Examine the social influences that may affect the consumer buying decision process.
- 6 Examine consumer misbehavior.



Jordan Siemens/Getty Images

MARKETING INSIGHTS

Iams Caters to Pet Owners' Tastes

Marketers at Iams, which makes Iams and Eukanuba pet products, know that many consumers treat their pets like family and want to provide them with the best. Picking up on this trend, Iams (owned by Procter & Gamble) now markets a variety of premium goods and services for pets that mirror those purchased and used by humans.

Catering to consumers who want healthy lifestyles for their pets, Iams ProActive Health dog food includes good bacteria to promote healthy digestion. For consumers who like to indulge their pets, Iams makes Savory Sauces, which are bottled just like human barbecue sauces and are available in dog-friendly flavors such as Pot Roast and Country Style Chicken.

Iams marketers continually conduct research to dig deeper and find out more about the way owners feel about and behave toward their pets. Research revealed, for example, that customers worry about feeding cats in multi-cat households where one cat is overweight. In response, the company created a Multi-Cat formula with ingredients that reduce fat in heavy cats but provide protein for lean cats.

Knowing that owners care about pet health, Iams works with Veterinary Pet Insurance Co. to offer pet health insurance. It is also branching out into MRI (magnetic resonance imaging) machines, in partnership with ProScan. Now doctors at Iams Pet Imaging Centers can investigate a pet's health problems without resorting to exploratory surgery. Finally, Iams has partnered with *Dog Fancy* and *Cat Fancy* magazines to offer free online classes to pet owners.¹

Firms and many other online and traditional marketers go to great lengths to understand their customers' needs and gain a better grasp of customers' **buying behavior**: the decision processes and actions of people involved in buying and using products. **Consumer buying behavior** refers to the buying behavior of ultimate consumers—those who purchase products for personal or household use and not for business purposes. Marketers attempt to understand buying behavior for several reasons. First, customers' overall opinions and attitudes toward a firm's products have a great impact on the firm's success. Second, as we saw in Chapter 1, the marketing concept stresses that a firm should create a marketing mix that satisfies customers. To find out what satisfies buyers, marketers must examine the main influences on what, where, when, and how consumers buy. Third, by gaining a deeper understanding of the factors that affect buying behavior, marketers are in a better position to predict how consumers will respond to marketing strategies.

In this chapter, we first examine the major stages of the consumer buying decision process, beginning with problem recognition, information search, and evaluation of alternatives and proceeding through purchase and postpurchase evaluation. We follow this with an examination of how the customer's level of involvement affects the type of decision making employed and discuss the types of consumer decision making processes. Next, we examine situational influences—surroundings, time, purchase reason, and buyer's mood and condition—that affect purchasing decisions. We go on to consider psychological influences on purchasing decisions: perception, motives, learning, attitudes, personality and self-concept, and lifestyles. Next, we discuss social influences that affect buying behavior, including roles, family, reference groups and opinion leaders, social classes, and culture and subcultures. We conclude with a discussion of consumer misbehavior.

buying behavior

The decision processes and actions of people involved in buying and using products

consumer buying behavior

The decision processes and purchasing activities of people who purchase products for personal or household use and not for business purposes

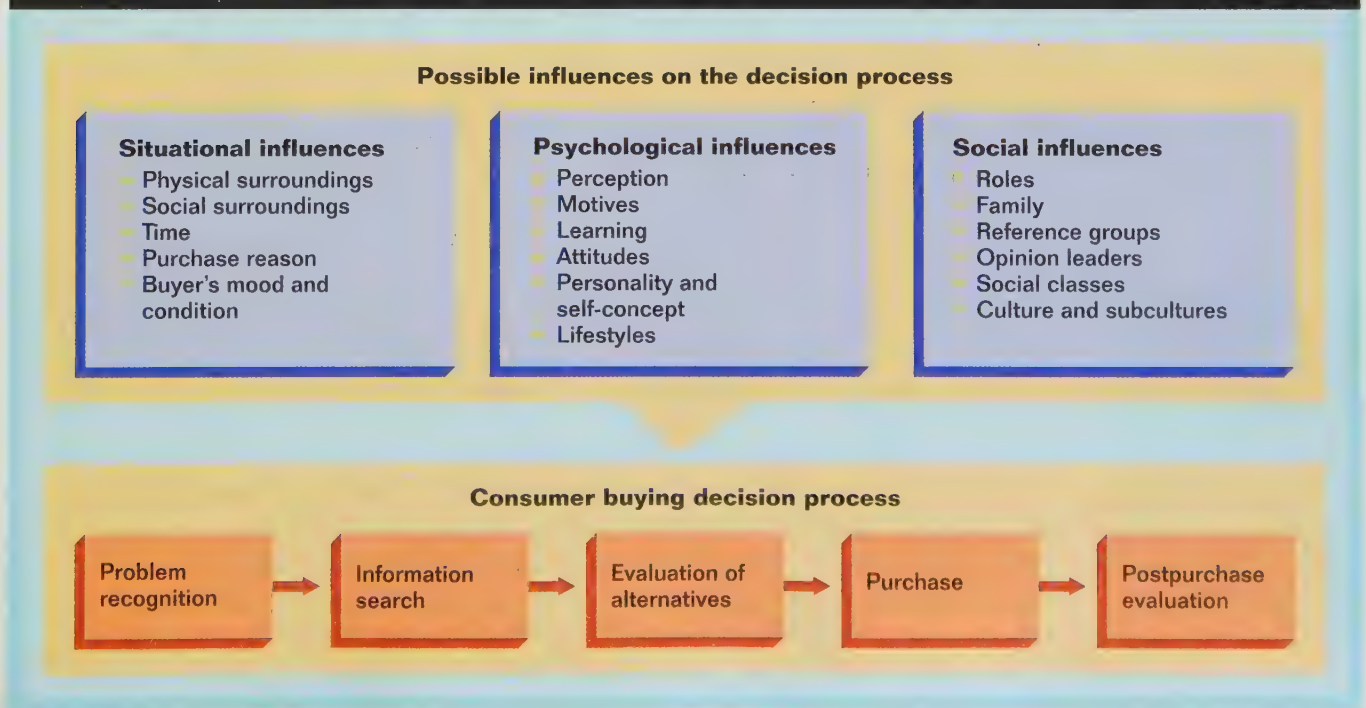
consumer buying decision process

A five-stage purchase decision process that includes problem recognition, information search, evaluation of alternatives, purchase, and postpurchase evaluation

Consumer Buying Decision Process

The **consumer buying decision process**, shown in Figure 6.1, includes five stages: problem recognition, information search, evaluation of alternatives, purchase, and postpurchase evaluation. Before we examine each stage, consider these important points. First, as shown

FIGURE 6.1 Consumer Buying Decision Process and Possible Influences on the Process





Problem Recognition

In this ad, Scott attempts to stimulate problem recognition regarding the need for more environmentally responsible toilet paper.

in Figure 6.1, this process can be affected by situational, psychological, and social influences. Second, the actual act of purchasing is just one stage in the process and usually not the first stage. Third, even though we indicate that a purchase occurs, not all decision processes lead to a purchase; individuals may end the process at any stage. Finally, not all consumer decisions include all five stages.

PROBLEM RECOGNITION

Problem recognition occurs when a buyer becomes aware of a difference between a desired state and an actual condition. Consider a female student who owns an older, out-of-date calculator, and she learns that a newer calculator is going to be necessary to run software required for class. She recognizes that a difference exists between the desired state—having a programmable calculator—and her actual condition. She therefore decides to buy a new calculator.

The speed of consumer problem recognition can be quite rapid or rather slow. Sometimes a person has a problem or need but is unaware of it. Marketers use sales personnel, advertising, and packaging to help trigger recognition of such needs or problems. For example, a university bookstore may advertise programmable calculators in the school newspaper at the beginning of the term. Students who see the advertisement may recognize that they need these calculators for their course work.

INFORMATION SEARCH

After recognizing the problem or need, a buyer (if continuing the decision process) searches for product information that will help resolve the problem or satisfy the need. To reference the example given earlier, after recognizing her need for a new calculator, the student may search for information about different types and brands of calculators. She acquires information over time from her surroundings. However, the information's impact depends on how she interprets it.

An information search has two aspects. In an **internal search**, buyers search their memories for information about products that might solve their problem. If they cannot retrieve enough information from memory to make a decision, they seek additional information from outside sources in an **external search**. The external search may focus on communication with friends or relatives, comparison of available brands and prices, marketer-dominated sources, and/or public sources. An individual's personal contacts—friends, relatives, and coworkers—often are influential sources of information because the person trusts and respects them. However, research suggests that consumers may overestimate friends' knowledge about products and their ability to evaluate them. Using marketer-dominated sources of information, such as salespeople, advertising, websites, package labeling, and in-store demonstrations and displays, typically requires little effort on the consumer's part. Indeed, the Internet has become a major information source during the consumer buying decision process, especially for

internal search

An information search in which buyers search their memories for information about products that might solve their problem

external search

An information search in which buyers seek information from sources other than their memories

product and pricing information. Buyers also obtain information from independent sources—for instance, government reports, news presentations, publications such as *Consumer Reports*, and reports from product-testing organizations. Consumers frequently view information from these sources as highly credible because of their factual and unbiased nature.

Repetition, a technique well-known to advertisers, increases consumers' learning of information. When they see or hear an advertising message for the first time, recipients may not grasp all its important details, but they learn more details as the message is repeated. Nevertheless, even when commercials are initially effective, repetition eventually may cause wear-out, meaning consumers pay less attention to the commercial and respond to it less favorably than they did at first. Information can be presented verbally, numerically, or visually. Marketers pay great attention to the visual components of their advertising materials.

EVALUATION OF ALTERNATIVES

A successful information search within a product category yields a group of brands that a buyer views as possible alternatives. This group of brands is sometimes called a **consideration set** (also called an *evoked set*). For example, a consideration set of computers might include desktop, laptop, and notebook computers from Dell, Toshiba, and HP. Research suggests that consumers assign a greater value to a brand they have heard of than to one they have not—even when they do not know anything else about the brand. Thus, when attempting to choose between two airlines for an emergency trip, most consumers will choose the one they have heard of over an unfamiliar name.

To assess the products in a consideration set, the buyer uses **evaluative criteria**: objective characteristics (such as the size) and subjective characteristics (such as style) that are important to him or her. Consider that one buyer may want a large display, whereas another may want a computer with a large amount of memory. The buyer also assigns a certain level of importance to each criterion: some features and characteristics carry more weight than others. The buyer rates and eventually ranks brands in the consideration set using the preceding criteria. The evaluation stage may yield no brand the buyer is willing to purchase. In that case, a further information search may be necessary.

Marketers may influence consumers' evaluations by *framing* the alternatives—that is, describing the alternatives and their attributes in a certain manner. Framing can make a characteristic seem more important to a consumer and facilitate its recall from memory. For example, by stressing a car's superior comfort and safety features over those of a competitor's, a carmaker can direct consumers' attention toward these points of superiority. Framing probably influences the decision processes of inexperienced buyers more than those of experienced ones. If the evaluation of alternatives yields one or more brands that the consumer is willing to buy, he or she is ready to move on to the next stage of the decision process: the purchase.

PURCHASE

In the purchase stage, the consumer chooses the product or brand to be bought. Selection is based on the outcome of the evaluation stage and on other dimensions. Product availability may influence which brand is purchased. For instance, if the brand that ranked highest in evaluation is unavailable, the buyer may purchase the brand that ranked second. If a consumer wants a pair of black Nikes and cannot find them in his size, he may buy a pair of black Reeboks.

During this stage, buyers also pick the seller from which they will buy the product. The choice of seller may affect final product selection and therefore the terms of sale, which, if negotiable, are determined at this stage. Other issues, such as price, delivery, warranties, maintenance agreements, installation, and credit arrangements, are also settled. Finally, the actual purchase takes place during this stage, unless the consumer decides to terminate the buying decision process.

consideration set

A group of brands within a product category that a buyer views as alternatives for possible purchase

evaluative criteria

Objective and subjective product characteristics that are important to a buyer

POSTPURCHASE EVALUATION

After the purchase, the buyer begins evaluating the product to ascertain if its actual performance meets expected levels. Many criteria used in evaluating alternatives are applied again during postpurchase evaluation. The outcome of this stage is either satisfaction or dissatisfaction, which influences whether the consumer complains, communicates with other possible buyers, and repurchases the brand or product.

Shortly after purchase of an expensive product, evaluation may result in **cognitive dissonance**, doubts in the buyer's mind about whether purchasing the product was the right decision. For example, after buying the iPhone 4 and hearing that some purchasers had experienced dropped signals due to an antennae defect, the consumer might start having concerns about his or her own phone's reception. Cognitive dissonance is most likely to arise when a person has recently bought an expensive, high-involvement product that lacks some of the desirable features of competing brands. A buyer who is experiencing cognitive dissonance may attempt to return the product or seek positive information about it to justify choosing it. Marketers sometimes attempt to reduce cognitive dissonance by having salespeople telephone or e-mail recent purchasers to make sure they are satisfied with their new purchases. At times, recent buyers are sent results of studies showing that other consumers are very satisfied with the brand.

As Figure 6.1 shows, three major categories of influences are believed to affect the consumer buying decision process: situational, psychological, and social. In the remainder of this chapter, we focus on these influences. Although we discuss each major influence separately, their effects on the consumer decision process are interrelated.

cognitive dissonance

A buyer's doubts shortly after a purchase about whether the decision was the right one

level of involvement

An individual's degree of interest in a product and the importance of the product for that person



© David Roth/Getty Images

High-Involvement Purchases

Durable goods like furniture represent higher involvement in the decision-making process because of the cost and duration of use.

TYPES OF CONSUMER DECISION MAKING AND LEVEL OF INVOLVEMENT

To acquire products that satisfy their current and future needs, consumers must engage in decision making. People engage in different types of decision making processes depending on the nature of the products involved. The amount of effort, both mental and physical, that buyers expend in solving problems also varies considerably. A major determinant of the type of decision-making process employed depends on the customer's **level of involvement**: the degree of interest in a product and the importance the individual places on that product. High-involvement products tend to be those that are visible to others (such as clothing, furniture, or automobiles) and are expensive. High-importance issues, such as health care, are also associated with high levels of involvement. Low-involvement products tend to be less expensive and have less associated social risk, such as many grocery items. A person's interest in a product or product category that is ongoing and long term is referred to as *enduring involvement*. For instance, a consumer who is interested in technology might always have the most advanced electronic devices, read electronics magazines, and work in a related field. However, most consumers have an enduring involvement with only a very

few activities or items. In contrast, *situational involvement* is temporary and dynamic, and it results from a particular set of circumstances, such as the need to buy a new car after being involved in an accident. For a short time period, the consumer will visit car dealerships, visit a car company's website, or even purchase automotive-related magazines or books. However, once the car purchase is made, the consumer's interest and involvement taper off. Consumer involvement may be attached to product categories (such as sports), loyalty to a specific brand, interest in a specific advertisement (e.g., a funny commercial) or a medium (such as a particular television show), or to certain decisions and behaviors (e.g., a love of shopping). On the other hand, a consumer may find a particular advertisement entertaining but still not get involved with the brand advertised because of loyalty to another brand. Involvement level, as well as other factors, affects a person's selection of one of three types of consumer decision making: routinized response behavior, limited decision making, or extended decision making (Table 6.1).

A consumer uses **routinized response behavior** when buying frequently purchased, low-cost items that require very little search-and-decision effort. When buying such items, a consumer may prefer a particular brand but is familiar with several brands in the product class and views more than one as acceptable. Typically, low-involvement products are bought through routinized response behavior—that is, almost automatically. For example, most buyers spend little time or effort selecting soft drinks or cereals.

Buyers engage in **limited decision making** when they buy products occasionally or when they need to obtain information about an unfamiliar brand in a familiar product category. This type of decision making requires a moderate amount of time for information gathering and deliberation. For instance, if Procter & Gamble introduces an improved Tide laundry detergent, interested buyers will seek additional information about the new product, perhaps by asking a friend who has used it, watching a commercial about it, or visiting the company's website, before making a trial purchase.

The most complex type of decision making, **extended decision making**, occurs when purchasing unfamiliar, expensive, or infrequently bought products—for instance, a car, home, or college education. The buyer uses many criteria to evaluate alternative brands or choices and spends much time seeking information and deciding on the purchase. Extended decision making is frequently used for purchasing high-involvement products.

Purchase of a particular product does not always elicit the same type of decision-making process. In some instances, we engage in extended decision making the first time we buy a certain product but find that limited decision making suffices when we buy it again. If a routinely purchased, formerly satisfying brand no longer satisfies us, we may use limited or extended decision making to switch to a new brand. Thus, if we notice that the brand

routinized response behavior

A consumer decision making process used when buying frequently purchased, low-cost items that require very little search-and-decision effort

limited decision making

A consumer decision making process used when purchasing products occasionally or needing information about an unfamiliar brand in a familiar product category

extended decision making

A consumer decision making process employed when purchasing unfamiliar, expensive, or infrequently bought products

TABLE 6.1 Consumer Decision Making

	Routinized Response	Limited	Extended
Product cost	Low	Low to moderate	High
Search effort	Little	Little to moderate	Extensive
Time spent	Short	Short to medium	Lengthy
Brand preference	More than one is acceptable, although one may be preferred	Several	Varies; usually many

of pain reliever we normally buy is no longer working well, we may seek out a different brand through limited decision making. Most consumers occasionally make purchases solely on impulse and not on the basis of any of these three decision-making processes. **Impulse buying** involves no conscious planning but results from a powerful urge to buy something immediately.

Situational Influences on the Buying Decision Process

impulse buying

An unplanned buying behavior resulting from a powerful urge to buy something immediately

situational influences

Influences that result from circumstances, time, and location that affect the consumer buying decision process

Situational influences result from circumstances, time, and location that affect the consumer buying decision process. Imagine buying an automobile tire after noticing, while washing your car, that the current tire is badly worn; this is a different experience from buying a tire right after a blowout on the highway spoils your vacation. Situational factors can influence the buyer during any stage of the consumer buying decision process and may cause the individual to shorten, lengthen, or terminate the process. Situational factors can be classified into five categories: physical surroundings, social surroundings, time perspective, reason for purchase, and the buyer's momentary mood and condition.²

Physical surroundings include location, store atmosphere, aromas, sounds, lighting, weather, and other factors in the physical environment in which the decision process occurs. Research suggests that retail store chains should design their store environments to make browsing as easy as possible to increase shoppers' willingness to choose and eventually make purchases.³ Marketers at

banks, department stores, and specialty stores go to considerable effort and expense to create physical settings that are conducive to making purchase decisions. Most restaurant chains, such as Olive Garden and Chili's, invest heavily in facilities, often building from the ground up, to provide special surroundings that enhance customers' dining experiences. In some settings, dimensions such as weather, traffic sounds, and odors are clearly beyond the marketers' control; instead, marketers must try to make customers more comfortable. General climatic conditions, for example, may influence a customer's decision to buy a specific type of vehicle (such as an SUV) and certain accessories (such as four-wheel drive). Current weather conditions, depending on whether they are favorable or unfavorable, may be either encouraging or discouraging to consumers when they are deciding whether to go shopping to seek out specific products.

Social surroundings include characteristics and interactions of others who are present during a purchase decision, such as friends, relatives, salespeople, and other customers. Buyers may feel pressured to behave in a certain way because they are in a public place such as a restaurant, store, or sports arena. Thoughts about who will be around when the product is used or consumed are another dimension of the social setting. An overcrowded store or an argument between a customer and a salesperson may cause consumers to leave the store.

The time dimension, too, influences the buying decision process in several ways, such as the amount of time required to become knowledgeable about a product, to



© Steven Puetzer/Getty Images

Situational Influences

Many teen purchases are affected by situational influences, such as social surroundings, time, and the reasons for purchase.

search for it, and to buy and use it. For instance, more men are buying diamond engagement rings online, partly to make an informed decision at their own convenience. An online jeweler like Blue Nile features a comfortable, anonymous, easy-to-use website to help men educate themselves about diamonds and then select a unique combination from its large inventory of diamonds and settings.⁴ Time plays a major role in that the buyer considers the possible frequency of product use, the length of time required to use the product, and the length of the overall product life. Other time dimensions that influence purchases include time of day, day of the week or month, seasons, and holidays. The amount of time pressure a consumer is under affects how much time is devoted to purchase decisions. A customer under severe time constraints is likely to either make a quick purchase decision or delay a decision.

The purchase reason raises the questions of what exactly the product purchase should accomplish and for whom. Generally, consumers purchase an item for their own use, for household use, or as a gift. For example, people who are buying a gift may buy a different product from one they would buy for themselves. If you own a Mont Blanc pen, for example, it is unlikely that you bought it for yourself.

The buyer's momentary moods (such as anger, anxiety, or contentment) or momentary conditions (fatigue, illness, or the possession of cash) may have a bearing on the consumer buying decision process. These moods or conditions immediately precede the current situation and are not chronic. Any of these moods or conditions can affect a person's ability and desire to search for information, receive information, or seek and evaluate alternatives. Research suggests that sad buyers are more inclined to take risks, whereas happy buyers are more likely to be risk averse when making buying decisions. They can also significantly influence a consumer's postpurchase evaluation.

Psychological Influences on the Buying Decision Process

Psychological influences partly determine people's general behavior and thus influence their behavior as consumers. Primary psychological influences on consumer behavior are perception, motives, learning, attitudes, personality and self-concept, and lifestyles. Even though these psychological factors operate internally, they are very much affected by social forces outside the individual.

PERCEPTION

Different people perceive the same thing at the same time in different ways. When you first look at the illustration on the next page, do you see fish or birds? Similarly, an individual may perceive the same item in a number of ways at different times. **Perception** is the process of selecting, organizing, and interpreting information inputs to produce meaning. **Information inputs** are sensations received through sight, taste, hearing, smell, and touch. When we hear an advertisement, see a friend, smell food cooking at a nearby restaurant, or touch a product, we receive information inputs. Perception is a complicated thing. For instance, research has shown that advertisements for food items that appeal to multiple senses at once are more effective than ones that focus on taste alone.⁵ Marketers are increasingly taking a multisensory approach. They sometimes even use scent to help attract consumers who may be in the problem recognition or information search stages of the buying decision process. Some Westin Hotels, for example, use a fragrance that blends green tea, geranium, green ivy, black cedar, and freesia to evoke a sense of serenity and tranquility in their lobbies, and Sony uses an orange-vanilla-cedarwood scent in some Sony Style stores to make women shoppers feel more comfortable.⁶

psychological influences

Factors that in part determine people's general behavior, thus influencing their behavior as consumers

perception

The process of selecting, organizing, and interpreting information inputs to produce meaning

information inputs

Sensations received through sight, taste, hearing, smell, and touch



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Fish or Fowl?

Do you see fish or birds?

selective exposure

The process by which some inputs are selected to reach awareness and others are not

selective distortion

An individual's changing or twisting of information that is inconsistent with personal feelings or beliefs

selective retention

Remembering information inputs that support personal feelings and beliefs and forgetting inputs that do not

As the definition indicates, perception is a three-step process. Although we receive numerous pieces of information at once, only a few reach our awareness. We select some inputs and ignore others because we cannot be conscious of all inputs at one time. This process is called **selective exposure** because an individual selects which inputs will reach awareness. If you are concentrating on this paragraph, you probably are not aware that cars outside are making noise, that the room light is on, that a song is playing on your MP3 player, or that you are touching this page. Even though you receive these inputs, they do not reach your awareness until they are pointed out.

An individual's current set of needs affects selective exposure. Information inputs that relate to one's strongest needs at a given time are more likely to be selected to reach awareness. It is not by random chance that many fast-food commercials are aired near mealtimes. Customers are more likely to tune in to these advertisements at these times.

The selective nature of perception may result not only in selective exposure but also in two other conditions: selective distortion and selective retention. **Selective distortion** is changing or twisting received information; it occurs when a person receives information inconsistent with personal feelings or beliefs, and he or she selectively interprets the information. Selective distortion describes the tendency for people to reject information that is inconsistent with their beliefs, even

when presented with information to the contrary. Selective distortion can both help and hurt marketers. For example, a consumer may become loyal to a brand and remain loyal even when confronted with evidence that another brand performs better. Selective distortion can also lessen the effect of the advertisement on the individual substantially. In **selective retention**, a person remembers information inputs that support personal feelings and beliefs and forgets inputs that do not. After hearing a sales presentation and leaving a store, for example, a customer may forget many selling points if they contradict personal beliefs or preconceived notions.

The second step in the process of perception is perceptual organization. Information inputs that reach awareness are not received in an organized form. To produce meaning, an individual must mentally organize and integrate new information with what is already stored in memory. People use several methods to organize. One method, called *closure*, occurs when a person mentally fills in missing elements in a pattern or statement. In an attempt to draw attention to its brand, an advertiser will capitalize on closure by using incomplete images, sounds, or statements in its advertisements.

Interpretation, the third step in the perceptual process, is the assignment of meaning to what has been organized. A person bases interpretation on what he or she expects or what is familiar. For this reason, a manufacturer who changes a product or its package faces a major problem: when people are looking for the old, familiar product or package, they may not recognize the new one. Consider PepsiCo, who pulled the plug on a package redesign for its Tropicana juices after consumer outrage over the new look affected sales.⁷ Consumers were happy with the look of the old containers and felt it was too difficult to distinguish between different types of juice with the new container design. Unless a product or package change is

accompanied by a promotional program that makes people aware of the change, an organization may suffer a sales decline, like that of Tropicana's.

Although marketers cannot control buyers' perceptions, they often try to influence them through information. Several problems may arise from such attempts, however. First, a consumer's perceptual process may operate so that a seller's information never reaches that person. For example, a buyer may block out a salesperson's presentation. Second, a buyer may receive a seller's information but perceive it differently than was intended, as occurs in selective distortion. For instance, when a toothpaste producer advertises that "35 percent of the people who use this toothpaste have fewer cavities," a customer might infer that 65 percent of users have more cavities. Third, a buyer who perceives information inputs to be inconsistent with prior beliefs is likely to forget the information quickly, as is the case with selective retention.

MOTIVES

A **motive** is an internal energizing force that directs a person's activities toward satisfying needs or achieving goals. Buyers' actions are affected by a set of motives rather than by just one motive. At a single point in time, some of a person's motives are stronger than others. For example, a person's motives for having a cup of coffee are much stronger right after waking up than just before going to bed. Some motives may help an individual achieve his or her goals, whereas others create barriers to goal achievement. Motives also affect the direction and intensity of behavior. For example, with e-commerce on the rise, researchers feel an increasing need to understand the motives of online shoppers and how it affects their buying behavior.

Recent research into this area divided online shoppers by two basic motivations: utilitarian (or functional) shoppers and hedonic (or nonfunctional) shoppers. Utilitarian consumers shop online because it is a useful and fast way to purchase certain items, whereas hedonic consumers shop online because it is a fun and enjoyable way to find bargains. The research found that hedonic consumers spent more time on the Internet for each purchase and shopped online more often than utilitarian consumers. Hedonic consumers were also more likely to make impulse buys online and engage in bidding wars on sites like eBay.⁸

Abraham Maslow, an American psychologist, conceived a theory of motivation based on a hierarchy of needs. According to Maslow, humans seek to satisfy five levels of needs, from most important to least important, as shown in Figure 6.2. This sequence is known as **Maslow's hierarchy of needs**. Once needs at one level are met, humans seek to fulfill needs at the next level up in the hierarchy.

At the most basic level are *physiological needs*, requirements for survival such as food, water, sex, clothing, and shelter, which people try to satisfy first. Food and beverage marketers often appeal to physiological needs. Marketers of whitening toothpastes such as Rembrandt sometimes promote their brands based on sex appeal.

At the next level are *safety needs*, which include security and freedom from physical and emotional pain and suffering. Life insurance, automobile air bags, carbon monoxide detectors, vitamins, and decay-fighting toothpastes are products that consumers purchase to meet safety needs.

motive

An internal energizing force that directs a person's behavior toward satisfying needs or achieving goals

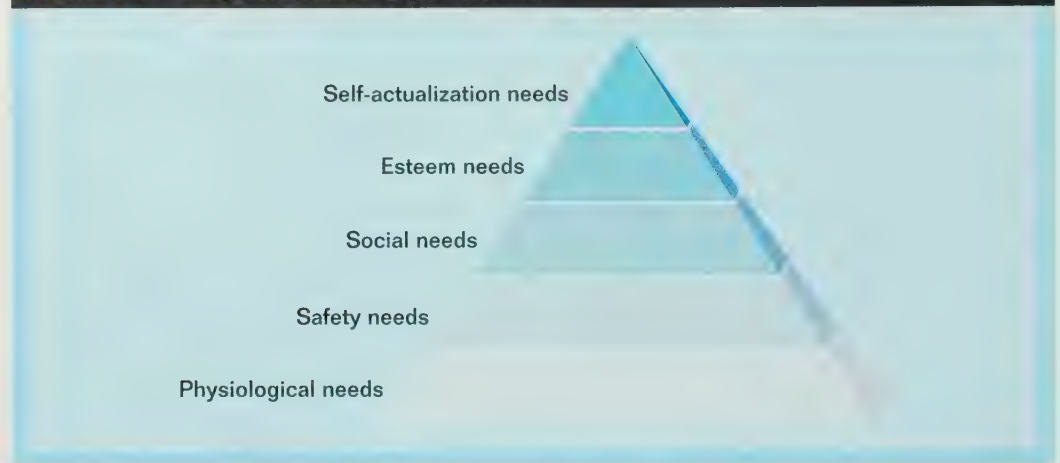
Maslow's hierarchy of needs

The five levels of needs that humans seek to satisfy, from most to least important



Motives

Financial planners and private bankers provide services that often appeal to customers' needs for love and security.

FIGURE 6.2 Maslow's Hierarchy of Needs

Maslow believed that people seek to fulfill five categories of needs.

Next are *social needs*: the human requirements for love and affection and a sense of belonging. Advertisements frequently appeal to social needs. Ads for cosmetics and other beauty products, jewelry, and even cars often suggest that purchasing these products will bring love. Certain types of trendy clothing, such as Abercrombie jeans, Nike athletic shoes, or T-shirts imprinted with logos or slogans, appeal to the customer's need to belong.

At the level of *esteem needs*, people require respect and recognition from others as well as self-esteem, a sense of one's own worth. Owning a Lexus automobile, having a beauty makeover, or flying first class can satisfy esteem needs. Many consumers are more willing to purchase products, even if they cost more, from firms that have a reputation for making charitable contributions. Part of this may be motivated by a desire by consumers to be perceived as caring about socially responsible causes.

At the top of the hierarchy are *self-actualization needs*. These refer to people's needs to grow and develop and to become all they are capable of becoming. Some products that satisfy these needs include fitness center memberships, education, self-improvement workshops, and skiing lessons. In its recruiting advertisements, the U.S. Army told potential enlistees to "be all that you can be in the Army," a message that implies that people can reach their full potential by enlisting in the U.S. Army.

Motives that influence where a person purchases products on a regular basis are called **patronage motives**. A buyer may shop at a specific store because of such patronage motives as price, service, location, product variety, or friendliness of salespeople. To capitalize on patronage motives, marketers try to determine why regular customers patronize a particular store and to emphasize these characteristics in the store's marketing mix.

LEARNING

Learning refers to changes in a person's thought processes and behavior caused by information and experience. Consequences of behavior strongly influence the learning process. Behaviors that result in satisfying consequences tend to be repeated. For example, a consumer who buys a Snickers candy bar and enjoys the taste is more likely to buy a Snickers again. In fact, the individual will probably continue to purchase that brand until it no longer provides satisfaction. When outcomes of the behavior are no longer satisfying, the person may switch brands or stop eating candy bars altogether.

When making purchasing decisions, buyers process information. Individuals' abilities in this regard differ. The type of information inexperienced buyers use may differ from the

patronage motives

Motives that influence where a person purchases products on a regular basis

learning

Changes in an individual's thought processes and behavior caused by information and experience

Emerging Trends in Marketing



Anthropologist as Market Researcher

Why would Intel, a company known for computer chips and other high-tech products, have a cultural anthropologist on staff? Genevieve Bell, Intel's director of interaction and experience research, uses her background in cultural anthropology to study how consumers use cell phones, computers, and other electronic gadgets in their daily lives. The insights she gains from observing consumers at home and at work, as well as from surveying consumers about their behavior and motivation, helps Intel decide which new products to make and which technologies will be the most important in target markets.

Bell joined Intel in 1998, when the company wanted a clearer picture about the future impact of computing technology on daily life. For the first few years, every time Bell made a presen-

tation to management or attended a company meeting, she had to explain what a cultural anthropologist was and why her research was useful for Intel.

Now, as she travels the world from Milan to Melbourne to Malaysia, Bell gathers all kinds of data, such as the way some teenagers swap cell phones for a day and how families figure out what to watch on television. Interpreting this information gives her a better sense of how customers think about electronic products, how often they use them and for what purpose, and what they like and dislike. Based on Bell's research, Intel's engineers and product designers are designing a variety of new chips specifically geared to the lifestyle, habits, and aspirations of customers worldwide who use digital devices every day.³

type used by experienced shoppers who are familiar with the product and purchase situation. Thus, two potential purchasers of an antique desk may use different types of information in making their purchase decisions. The inexperienced buyer may judge the desk's value by price, whereas the more experienced buyer may seek information about the manufacturer, period, and place of origin to judge the desk's quality and value. Consumers who lack experience may seek information from others when making a purchase and even take along an informed "purchase pal." More experienced buyers have greater self-confidence and more knowledge about the product and can recognize which product features are reliable cues to product quality.

Marketers help customers learn about their products by helping them gain experience with them. Free samples, sometimes coupled with coupons, can successfully encourage trial and reduce purchase risk. For instance, because some consumers may be wary of exotic menu items, restaurants sometimes offer free samples. In-store demonstrations foster knowledge of product uses. A software producer may use point-of-sale product demonstrations to introduce a new product. Test drives give potential new-car purchasers some experience with the automobile's features.

Consumers also learn by experiencing products indirectly through information from salespeople, advertisements, websites, friends, and relatives. Through sales personnel and advertisements, marketers offer information before (and sometimes after) purchases to influence what consumers learn and to create more favorable attitudes toward the product. However, their efforts are seldom fully successful. Marketers encounter problems in attracting and holding consumers' attention, providing consumers with important information for making purchase decisions, and convincing them to try the product.

ATTITUDES

An **attitude** is an individual's enduring evaluation of feelings about and behavioral tendencies toward an object or idea. The objects toward which we have attitudes may be tangible or

attitude

An individual's enduring evaluation of feelings about and behavioral tendencies toward an object or idea

intangible, living or nonliving. For example, we have attitudes toward sex, religion, politics, and music, just as we do toward cars, football, and breakfast cereals. Although attitudes can change over time, they generally tend to remain stable and do not vary much in the short term. However, all of a person's attitudes do not have equal impact at any one time; some are stronger than others. Individuals acquire attitudes through experience and interaction with other people.

An attitude consists of three major components: cognitive, affective, and behavioral. The cognitive component is the person's knowledge and information about the object or idea. The affective component comprises the individual's feelings and emotions toward the object or idea. Emotions involve both psychological and biological elements. They relate to feelings and can create visceral responses related to behavior. Love, hate, and anger are emotions that can influence behavior. For some people, certain brands, such as Apple Inc., Starbucks, or their favorite sports franchise, elicit an emotional response. Firms that create an emotional experience or connection establish a positive brand image and will contribute to customer affinity and loyalty. This means it is important for marketers to generate authentic, genuine messages that consumers can relate to emotionally.⁹ The behavioral component manifests itself in the person's actions regarding the object or idea. Changes in one of these components may or may not alter the other components. Thus, a consumer may become more knowledgeable about a specific brand without changing the affective or behavioral components of his or her attitude toward that brand.

Consumer attitudes toward a company and its products greatly influence success or failure of the firm's marketing strategy. When consumers have strong negative attitudes toward one or more aspects of a firm's marketing practices, they may not only stop using its products but also urge relatives and friends to do likewise.

Because attitudes play an important part in determining consumer behavior, marketers should measure consumer attitudes toward prices, package designs, brand names, advertisements, salespeople, repair services, store locations, features of existing or proposed products, and social responsibility efforts. Seeking to understand attitudes has resulted in two major academic models: the attitude toward the object (the Fishbein model) and the behavioral intentions model (also known as the Theory of Reasoned Action). These models provide an understanding of the role of attitudes in decision making.

Communicating an Attitude

A growing segment of the population buys local and organic, expressing their attitudes toward food quality and point of origin.



The attitude toward the object model can be used to understand, and possibly predict, a consumer's attitude. The three elements of this model include beliefs about product attributes, the strength of the belief, and the evaluation of the belief. These elements combine to form what is called the overall attitude toward the object.¹⁰ The behavioral intentions model, rather than focusing on attributes, focuses on intentions to act or purchase. This model considers consumer perceptions of what other people, such as peers, believe is the best choice among a set of alternatives. This model also focuses on attitudes toward the buying behavior, not toward the object. The subjective norm component is important in recognizing that individuals live in an inherently social environment and are influenced by what others think and believe. Consider attitudes toward personal appearance (such as what clothes people wear, hairstyles, or body modifications such as piercings or tattoos). Consumers will take into account what others will think of their decisions. Many people are motivated to comply with what others hold to be an acceptable norm and stay in close communication through traditional word-of-mouth communications, media, and online social networking.

Several methods help marketers gauge consumer attitudes. One of the simplest ways is to question people directly. The Internet and social networking sites have become valuable tools for marketers seeking information on consumer attitudes. Using sites like Facebook, companies can ask consumers directly for feedback and reviews of their products. Marketers also evaluate attitudes through attitude scales. An **attitude scale** usually consists of a series of adjectives, phrases, or sentences about an object. Respondents indicate the intensity of their feelings toward the object by reacting to the adjectives, phrases, or sentences in a certain way. For example, a marketer who is measuring people's attitudes toward shopping might ask respondents to indicate the extent to which they agree or disagree with a number of statements, such as "shopping is more fun than watching television." By using an attitude scale, a marketing research company was able to identify and classify six major types of clothing purchasers. The scale was based on such attributes as demographics, media use, and purchase behavior.

When marketers determine that a significant number of consumers have negative attitudes toward an aspect of a marketing mix, they may try to change those attitudes to make them more favorable. This task is generally lengthy, expensive, and difficult and may require extensive promotional efforts. For instance, Walmart, after years of negative publicity over how it treated its workers, its unsustainable supply chain, and its negative impacts on the environment, made a concerted effort to change consumers' perceptions. The retail giant altered its slogan to "Save Money. Live Better." It also announced that it is undertaking an ambitious plan to track the carbon footprint of every product in its store. Although expensive, the move has helped Walmart make gradual inroads with consumer groups that previously shunned the chain. To alter consumers' responses so that more of them buy a given brand, a firm might launch an information-focused campaign to change the cognitive component of a consumer's attitude or a persuasive (emotional) campaign to influence the affective component. Distributing free samples might help change the behavioral component. Both business and nonbusiness organizations try to change people's attitudes about many things, from health and safety to prices and product features.

attitude scale

A means of measuring consumer attitudes by gauging the intensity of individuals' reactions to adjectives, phrases, or sentences about an object



Marketing Debate

How Many Times Can a Company Violate a Customer's Trust?

ISSUE: *Can automakers regain the public's trust after their cars burst into flames or speed out of control?*

That's the situation facing India's Tata Motors and Japan's Toyota. Tata makes the Nano, the world's cheapest car. Initial sales were strong but plummeted after a handful of Nanos caught fire. Instead of a formal recall, Tata asked owners to bring in their cars for a checkup. It also extended the car's warranty, in the hope of winning back customers' trust.

Toyota is trying to revive its quality reputation after widespread problems related to stuck accelerator pedals. Because the company was slow to issue recalls, it had to pay hefty fines. Although a report by the National Highway Transportation Safety Administration attributed driver error as the cause of many Toyota collisions, the company still made quality mistakes that resulted in recalls. Will buyers trust Toyota again?^b

Green Marketing



eBay's Green Team Gets Greener

Since 2007, eBay's Green Team has been hard at work promoting sustainability worldwide. The company, a pioneer in the online auction business, uses the slogan "Inspiring the world to buy, sell, and think green every day" to convey its environmental commitment.

Through blog entries (at www.ebaygreenteam.com), Twitter posts (<http://twitter.com/eBayGreen>), and Facebook entries (www.facebook.com/eBayGreen), the Green Team highlights eco-friendly practices for the sellers and buyers who use eBay. "Our single-minded mission is to build a movement in

society to use what already exists," says the head of the Green Team. Buying and selling used merchandise benefits the environment by conserving natural resources and "recycling" unwanted items to new owners.

The Green Team consists of 2,400 employees in 23 nations, plus thousands of eBay sellers who submit ideas of their own. One idea that came from the eBay community was the eBay Box, a cardboard box that can be reused over and over when sellers ship items to buyers.⁵

PERSONALITY AND SELF-CONCEPT

Personality is a set of internal traits and distinct behavioral tendencies that result in consistent patterns of behavior in certain situations. An individual's personality arises from hereditary characteristics and personal experiences that make the person unique. Personalities typically are described as having one or more characteristics, such as compulsiveness, ambition, gregariousness, dogmatism, authoritarianism, introversion, extroversion, and competitiveness. Marketing researchers look for relationships between such characteristics and buying behavior. Even though a few links between several personality traits and buyer behavior have been determined, results of many studies have been inconclusive. The weak association between personality and buying behavior may be the result of unreliable measures rather than a lack of a relationship. A number of marketers are convinced that consumers' personalities do influence types and brands of products purchased. For example, the type of clothing, jewelry, or automobile a person buys may reflect one or more personality characteristics. The VALS™ program is one consumer framework, based on individual personality differences, that is successful. (See the following Lifestyles section.)

At times, marketers aim advertising at certain types of personalities. For instance, ads for certain cigarette brands are directed toward specific personality types. Marketers focus on positively valued personality characteristics, such as security consciousness, sociability, independence, or competitiveness, rather than on negatively valued ones, such as insensitivity or timidity.

A person's self-concept is closely linked to personality. **Self-concept** (sometimes called *self-image*) is a perception or view of oneself. Individuals develop and alter their self-concepts based on an interaction between psychological and social dimensions. Research shows that buyers purchase products that reflect and enhance their self-concepts and that purchase decisions are important to the development and maintenance of a stable self-concept. For example, consumers who feel insecure about their self-concept may purchase products that help them bolster the image of themselves that they would like to project.¹¹ Consumers' self-concepts may influence whether they buy a product in a specific product category and may affect brand selection as well as where they buy. Consider Timothy S. Leatherman, who named his specialty pocketknife the Pocket Survival Tool. He did so to attract the attention of outdoor survivalists. The ploy worked; it turns out that many people envisioned themselves needing such a tool in their pockets. It didn't take long for sales to grow beyond expectations.¹²

personality

A set of internal traits and distinct behavioral tendencies that result in consistent patterns of behavior in certain situations

self-concept

A perception or view of oneself

LIFESTYLES

As we saw in Chapter 5, many marketers attempt to segment markets by lifestyle. A **lifestyle** is an individual's pattern of living expressed through activities, interests, and opinions. Lifestyle patterns include the ways people spend time, the extent of their interaction with others, and their general outlook on life and living. People partially determine their own lifestyles, but the pattern is also affected by personality and by demographic factors such as age, education, income, and social class. Lifestyles are measured through a lengthy series of questions.

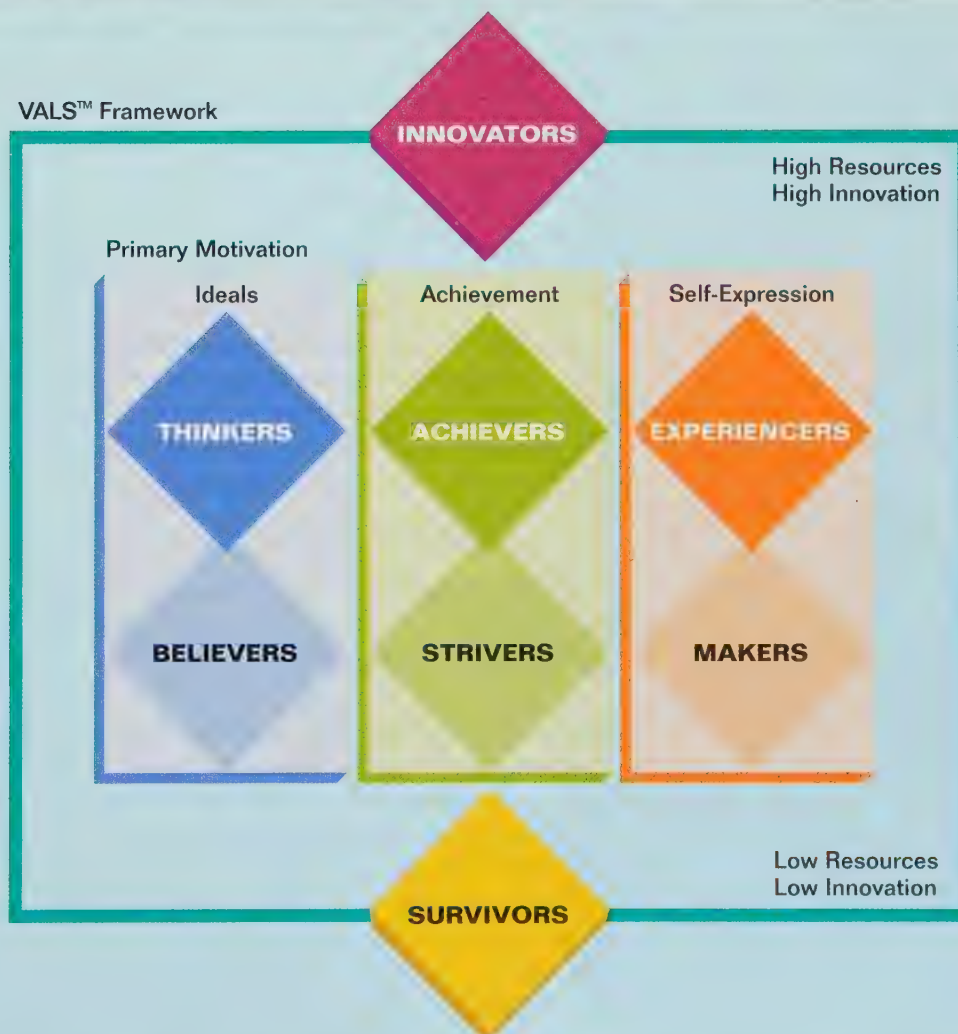
Lifestyles have a strong impact on many aspects of the consumer buying decision process, from problem recognition to postpurchase evaluation. Lifestyles influence consumers' product needs, brand preferences, types of media used, and how and where they shop.

One of the most popular frameworks for exploring consumer lifestyles is a survey from Strategic Business Insights (SBI), a spin-out of SRI International. The company's VALS Program uses a short questionnaire to help classify consumers into eight basic groups: Innovators, Thinkers, Achievers, Experiencers, Believers, Strivers, Makers, and Survivors (see Figure 6.3). The segmentation is based on psychological characteristics that are correlated

lifestyle

An individual's pattern of living expressed through activities, interests, and opinions

FIGURE 6.3 VALS™ Types



Source: VALS™ Program, Strategic Business Insights (SBI), www.strategicbusinessinsights.com/VALS. Reprinted with permission.

social influences

The forces other people exert on one's buying behavior

roles

Actions and activities that a person in a particular position is supposed to perform based on expectations of the individual and surrounding persons

consumer socialization

The process through which a person acquires the knowledge and skills to function as a consumer

with purchase behavior and four key demographics. This VALS questionnaire is then attached to larger surveys, such as GfK MRI's Survey of the American Consumer, that focus on particular products, services, leisure activities, or media preferences to learn about the lifestyles of the eight groups.¹³ VALS is a framework that links personality with consumers' lifestyles.

Social Influences on the Buying Decision Process

Forces that other people exert on buying behavior are called **social influences**. As Figure 6.1 shows, they are grouped into five major areas: roles, family, reference groups and opinion leaders, social classes, and culture and subcultures.

ROLES

All of us occupy positions within groups, organizations, and institutions. As part of each position, we all play one or more **roles**, which are sets of actions and activities a person in a particular position is supposed to perform based on expectations of both the individual and surrounding persons. Because people occupy numerous positions, they have many roles. For example, a man may perform the roles of son, husband, father, employee or employer, church member, civic organization member, and student in an evening college class. Thus, multiple sets of expectations are placed on each person's behavior.

An individual's roles influence both general behavior and buying behavior. The demands of a person's many roles may be diverse and even inconsistent. Consider the various types of clothes that you buy and wear depending on whether you are going to class, to work, to a party, or to the gym. You and others involved in these settings have expectations about what is acceptable clothing for these events. Thus, the expectations of those around us affect our purchases of clothing and many other products.

FAMILY INFLUENCES

Family influences have a direct impact on the consumer buying decision process. Parents teach children how to cope with a variety of problems, including those dealing with purchase decisions. **Consumer socialization** is the process through which a person acquires the knowledge and skills to function as a consumer. Often, children gain this knowledge and set of skills by observing parents and older siblings in purchase situations, as well as through their own purchase experiences. Children observe brand preferences and buying practices in their families and, as adults, retain some of these brand preferences and buying practices as they establish and raise their own families. Buying decisions made by a family are a combination of group and individual decision making.

The extent to which family members take part in family decision making varies among families and product categories.



© Ilene MacDonald/Alamy

Family Influences

Vacations, such as a trip to Disney World, are highly influenced by parents' needs as well as children's desires. Children learn a great deal from their parents about buying decisions associated with vacation travel.

TABLE 6.2 Types of Family Decision Making

Decision-Making Type	Decision Maker	Types of Products
Husband dominant	Male head of household	Lawn mowers, hardware and tools, stereos, automobile parts
Wife dominant	Female head of household	Children's clothing, women's clothing, groceries, household furnishings
Autonomic	Equally likely to be made by the husband or wife, but not by both	Men's clothing, luggage, toys and games, sporting equipment, cameras
Syncratic	Made jointly by husband and wife	Vacations, TVs, living room furniture, carpets, financial planning services, family cars

Traditionally, family decision-making processes have been grouped into four categories: autonomic, husband dominant, wife dominant, and syncratic, as shown in Table 6.2. Although female roles continue to change, women still make buying decisions related to most household items, including health-care products, laundry supplies, paper products, and foods. Indeed, research indicates that women are the primary decision makers for 75 percent of all consumer buying decisions.¹⁴ Spouses participate jointly in the purchase of a variety of products, especially durable goods.

The family life-cycle stage affects individual and joint needs of family members. For example, consider how the car needs of recently married “twenty-somethings” differ from those of the same couple when they are “forty-somethings” with a 13-year-old daughter and a 17-year-old son. Family life-cycle changes can affect which family members are involved in purchase decisions and the types of products purchased. Children make many purchase decisions and influence numerous household purchase decisions.

When two or more family members participate in a purchase, their roles may dictate that each is responsible for performing certain purchase-related tasks, such as initiating the idea, gathering information, determining if the product is affordable, deciding whether to buy the product, or selecting the specific brand. The specific purchase tasks performed depend on the types of products being considered, the kind of family purchase decision process typically employed, and the amount of influence children have in the decision process. Thus, different family members may play different roles in the family buying process.

Within a household, an individual may perform one or more roles related to making buying decisions. The gatekeeper is the household member who collects and controls information. This may include price and quality comparisons, locations of sellers, and assessment of which brand best suits the family's needs. For example, if a family is planning a summer vacation, the gatekeeper might compare prices for hotels and airfare. The influencer is a family member who expresses his or her opinions and tries to influence buying decisions. In the vacation example, an influencer might be a child who wants to go to Disney World or a teenager who wants only to go snowboarding. The decider is a member who makes the buying choice. This role switches based on the type and expense of the product being purchased. In the case of a vacation, the decider will more likely be the adults, who use a combination of information, influences, and their own preferences. The buyer is a member who actually makes the purchase. After the family has

decided to go to Disney World, the buyer⁷ will make all of the actual travel purchases. The user is a household member who consumes or uses the product. In this Disney World example, all members of the family would be users.

REFERENCE GROUPS

A **reference group** is a group that a person identifies with so strongly that he or she adopts the values, attitudes, and behavior of group members. Reference groups can be large or small. Most people have several reference groups, such as families, work-related groups, fraternities or sororities, civic clubs, professional organizations, or church-related groups.

In general, there are three major types of reference groups: membership, aspirational, and disassociative. A membership reference group is one to which an individual actually belongs; the individual identifies with group members strongly enough to take on the values, attitudes, and behaviors of people in that group. An aspirational reference group is a group to which a person aspires to belong; the individual desires to be like those group members. A group that a person does not wish to be associated with is a disassociative or negative reference group; the individual does not want to take on the values, attitudes, and behavior of group members.

A reference group may serve as an individual's point of comparison and source of information. A customer's behavior may change to be more in line with actions and beliefs of group members. For instance, a person may stop buying one brand of shirts and switch to another based on reference group members' advice. An individual may also seek information from the reference group about other factors regarding a prospective purchase, such as where to buy a certain product.

The extent to which a reference group affects a purchase decision depends on the product's conspicuousness and on the individual's susceptibility to reference group influence. Generally, the more conspicuous a product, the more likely that reference groups will influence the purchase decision. A product's conspicuousness is determined by whether others can see it and whether it can attract attention. Reference groups can affect whether a person does or does not buy a product at all, buys a type of product within a product category, or buys a specific brand.

A marketer sometimes tries to use reference group influence in advertisements by suggesting that people in a specific group buy a product and are highly satisfied with it. In this type of appeal, the advertiser hopes that many people will accept the suggested group as a reference group and buy (or react more favorably to) the product. Whether this kind of advertising succeeds depends on three factors: how effectively the advertisement communicates the message, the type of product, and the individual's susceptibility to reference group influence.

OPINION LEADERS

An **opinion leader** is a member of an informal group who provides information about a specific topic, like software, to other group members who seek that information. He or she is in a position or has knowledge or expertise that makes him or her a credible source of information about a few topics. Opinion leaders are easily accessible, and they are viewed by other group members as being well informed about a particular topic. Opinion leaders are not the foremost authority on all topics, but because such individuals know they are opinion leaders, they feel a responsibility to remain informed about a topic and thus seek out advertisements, manufacturers' brochures, salespeople, and other sources of information. Opinion leaders have a strong influence on the behavior of others in their group, particularly relating to product adoption and purchases.

reference group

A group that a person identifies with so strongly that he or she adopts the values, attitudes, and behavior of group members

opinion leader

A member of an informal group who provides information about a specific topic to other group members

TABLE 6.3 Examples of Opinion Leaders and Topics

Opinion Leader	Possible Topics
Local religious leader	Charities to support, political ideas, lifestyle choices
Sorority president	Clothing and shoe purchases, hair styles, nail and hair salons
"Movie buff" friend	Movies to see in theater or to rent, DVDs to buy, television programs to watch
Family doctor	Prescription drugs, vitamins, health products
"Techie" acquaintance	Computer and other electronics purchases, software purchases, Internet service choices, video game purchases

An opinion leader is likely to be most influential when consumers have high product involvement but low product knowledge, when they share the opinion leader's values and attitudes, and when the product details are numerous or complicated. Possible opinion leaders and topics are shown in Table 6.3.

SOCIAL CLASSES

In all societies, people rank others into higher or lower positions of respect. This ranking process, called social stratification, results in social classes. A **social class** is an open aggregate of people with similar social rank. A class is referred to as *open* because people can move into and out of it. Criteria for grouping people into classes vary from one society to another. In the United States, we take into account many factors, including occupation, education, income, wealth, race, ethnic group, and possessions. A person who is ranking someone does not necessarily apply all of a society's criteria. Sometimes, too, the role of income tends to be overemphasized in social class determination. Although income does help determine social class, the other factors also play a role. Within social classes, both incomes and spending habits differ significantly among members.

Analyses of social class in the United States commonly divide people into three to seven categories. Social scientist Richard P. Coleman suggests that for purposes of consumer analysis the population is divided into the three major status groups shown in Table 6.4. However, he cautions marketers that considerable diversity exists in people's life situations within each status group.

To some degree, individuals within social classes develop and assume common behavioral patterns. They may have similar attitudes, values, language patterns, and possessions. Social class influences many aspects of people's lives. Because people have the most frequent interaction with people from within their own social class, most people are more likely to be influenced by others within their own class than by those in other classes. For example, it affects their chances of having

social class

An open group of individuals with similar social rank



Entrepreneurship in Marketing

Pampered Pets Fly in Style

Entrepreneurs Alysia Binder and Dan Weisel founded Pet Airways as an airline exclusively for dogs, cats, and other pampered pets. Its first flight was in 2009; now, the airline flies to nine cities and is expanding its service as the idea of jet-setting pets takes off.

Pets flying Pet Airways have access to special pet-only airport lounges, regular "potty breaks," first-class cabin accommodations, and personal attention every 15 minutes once they're in the air. The founders have arranged everything to reassure owners that the airline's "pawsengers" will be safe, comfortable, and happy from the moment their paws leave the ground until they're reunited with their owners at the end of the journey.

Owners can track a pet's flight online in real time, and if Pet Airways must delay or cancel a flight, it quickly notifies owners by phone or e-mail. And the cost? That depends on the pet's size and how far the pet will be traveling.^d

TABLE 6.4 Social Class Behavioral Traits and Purchasing Characteristics

Class (Percent of Population)	Behavioral Traits	Buying Characteristics
Upper Americans		
Upper-upper (0.5)	Social elite Of aristocratic, prominent families Inherited their position in society	Children attend private preparatory schools and best colleges Do not consume ostentatiously Spend money on private clubs, various causes, and the arts
Lower-upper (3.8)	Newer social elite Successful professionals earning very high incomes Earned their position in society	Purchase material symbols of their status, such as large, suburban houses and expensive automobiles Provide a substantial market for luxury product offerings Visit museums and attend live theater Spend money on skiing, golf, swimming, and tennis
Upper-middle (13.8)	Career-oriented, professional degree holders Demand educational attainment of their children	Provide a substantial market for quality product offerings Family lifestyle characterized as gracious yet careful Spend money on movies, gardening, and photography
Middle Americans		
Middle class (32.8)	"Typical" Americans Work conscientiously and adhere to culturally defined standards Average-pay white-collar workers Attend church and obey the law Often very involved in children's school and sports activities	Greatly value living in a respected neighborhood and keep their homes well furnished Generally price sensitive Adopt conventional consumption tastes and consult category experts Spend on family-oriented, physical activities, such as fishing, camping, boating, and hunting
Working class (32.3)	Average-pay blue-collar workers Live a routine life with unchanging day-to-day activities Hold jobs that entail manual labor and moderate skills Some are union members Socially not involved in civic or church activities; limit social interaction to close neighbors and relatives	Reside in small houses or apartments in depressed areas Impulsive as consumers yet display high loyalty to national brands Seek best bargains Enjoy leisure activities like local travel and recreational parks

(continued)

TABLE 6.4 Social Class Behavioral Traits and Purchasing Characteristics (continued)

Lower Americans		
Upper-lower (9.5)	Low-income individuals who generally fail to rise above this class Reject middle-class morality	Living standard is just above poverty Seek pleasure whenever possible, especially through impulse purchases Frequently purchase on credit
Lower-lower (7.3)	Some are on welfare and may be homeless Poverty stricken Some have strong religious beliefs Some are unemployed In spite of their problems, often good-hearted toward others May be forced to live in less desirable neighborhoods	Spend on products needed for survival Able to convert discarded goods into usable items

Sources: Roger D. Blackwell, Paul W. Miniard, and James F. Engel, *Consumer Behavior*, 10th ed. (Mason, OH: South-Western, 2005); "The Continuing Significance of Social Class Marketing," *Journal of Consumer Research* 10 (Dec. 1983): 265–280; Eugene Sivadas, George Mathew, and David J. Curry, "A Preliminary Examination of the Continued Significance of Social Class in Marketing," *Journal of Consumer Marketing* 14, no. 6 (1997): 463–469.

children and their children's chances of surviving infancy. It influences their childhood training, choice of religion, financial planning decisions, access to higher education, selection of occupation, and leisure time activities. Because social class has a bearing on so many aspects of a person's life, it also affects buying decisions.

Social class influences people's spending, saving, and credit practices. It determines to some extent the type, quality, and quantity of products a person buys and uses. For instance, it affects purchases of clothing, foods, financial and health-care services, travel, recreation, entertainment, and home furnishings. The behaviors of people in one class can influence consumers in others. Most common is the "trickle-down" effect in which members of lower classes attempt to emulate members of higher social classes, such as purchasing expensive automobiles, homes, appliances, and other status symbols. For example, couture fashions designed for the upper class influence the clothing sold in department stores frequented by the middle class, which eventually influences the working class who shop at discount clothing stores. Less often, status float will occur, when a product that is traditionally associated with a lower class gains status and usage among upper classes. Blue jeans, for example, were originally worn exclusively by the working class. Youth of the 1950s began wearing them as a symbol of rebellion against their parents. By the 1970s and 1980s, jeans had also been adopted by upper-class youth when they began to acquire designer labels. Today, blue jeans are acceptable attire for all social classes and cost anywhere from a few dollars to thousands of dollars, depending on the brand.

Social class also affects an individual's shopping patterns and types of stores patronized. In some instances, marketers attempt to focus on certain social classes through store location and interior design, product design and features, pricing strategies, personal sales efforts, and advertising. Many companies focus on the middle and working classes because they account for such a large portion of the population. Outside the United States, the middle class is growing in India, China, Mexico, and other countries, making these consumers increasingly desirable to marketers as well. Some firms target different classes with different products.

For example, luxury brands BMW and Mercedes-Benz have both released more moderately priced vehicles (\$20,000 to \$40,000) to target middle-class consumers, although it usually targets upper-class customers with more expensive vehicles (\$80,000 plus).¹⁵

CULTURE AND SUBCULTURES

Culture is the accumulation of values, knowledge, beliefs, customs, objects, and concepts that a society uses to cope with its environment and passes on to future generations. Examples of objects are foods, furniture, buildings, clothing, and tools. Concepts include education, welfare, and laws. Culture also includes core values and the degree of acceptability of a wide range of behaviors in a specific society. For example, in U.S. culture, customers as well as businesspeople are expected to behave ethically.

Culture influences buying behavior because it permeates our daily lives. Our culture determines what we wear and eat and where we reside and travel. Society's interest in the healthfulness of food affects food companies' approaches to developing and promoting their products. Culture also influences how we buy and use products and our satisfaction from them. In U.S. culture, makers of furniture, cars, and clothing strive to understand how people's color preferences are changing.

Because culture determines product purchases and uses to some degree, cultural changes affect product development, promotion, distribution, and pricing. Food marketers, for example, have made a multitude of changes in their marketing efforts. Thirty years ago, most U.S. families ate at least two meals a day together, and the mother spent four to six hours a day preparing those meals. Today, the majority of women work outside the home before they reach retirement age, and average family incomes have risen considerably. These shifts, along with scarcity of time, have resulted in dramatic changes in the national per capita consumption of certain food products, such as take-out foods, frozen dinners, and shelf-stable foods.

When U.S. marketers sell products in other countries, they realize the tremendous impact those cultures have on product purchases and use. Global marketers find that people in other regions of the world have different attitudes, values, and needs, which call for different methods of doing business as well as different types of marketing mixes. Some international

culture

The accumulation of values, knowledge, beliefs, customs, objects, and concepts that a society uses to cope with its environment and passes on to future generations

subculture

A group of individuals whose characteristics, values, and behavioral patterns are similar within the group and different from those of people in the surrounding culture

Subculture

Subcultures can be based on demographic characteristics, such as ethnicity.



marketers fail because they do not or cannot adjust to cultural differences.

A culture consists of various subcultures. A **subculture** is a group of individuals whose characteristics, values, and behavioral patterns are similar within the group and different from those of people in the surrounding culture. Subcultural boundaries are usually based on geographic designations and demographic characteristics, such as age, religion, race, and ethnicity. U.S. culture is marked by many different subcultures. Among them are West Coast, teenage, Asian American, and college students. Within subcultures, greater similarities exist in people's attitudes, values, and actions than within the broader culture. For example, teenage girls in the United States are 84 percent more likely to consume iced coffee than other Americans.¹⁶

Relative to other subcultures, individuals in one subculture may have stronger preferences for specific types of clothing, furniture, or foods. Research has shown that subcultures can play a significant role in how people respond to advertisements, particularly when pressured to make a snap judgment. It is important to understand that a person can be a member of more than one subculture and that the behavioral patterns and values attributed to specific subcultures do not necessarily apply to all group members.

The percentage of the U.S. population consisting of ethnic and racial subcultures is expected to grow. By 2050, about one-half of the U.S. population will be members of racial and ethnic minorities. The U.S. Census Bureau reports that the three largest and fastest-growing ethnic U.S. subcultures are African Americans, Hispanics, and Asians.¹⁷ Forty-six percent of children in the United States are minorities.¹⁸ The population growth of these subcultures interests marketers. Businesses recognize that to succeed, their marketing strategies will have to take into account the values, needs, interests, shopping patterns, and buying habits of various subcultures.

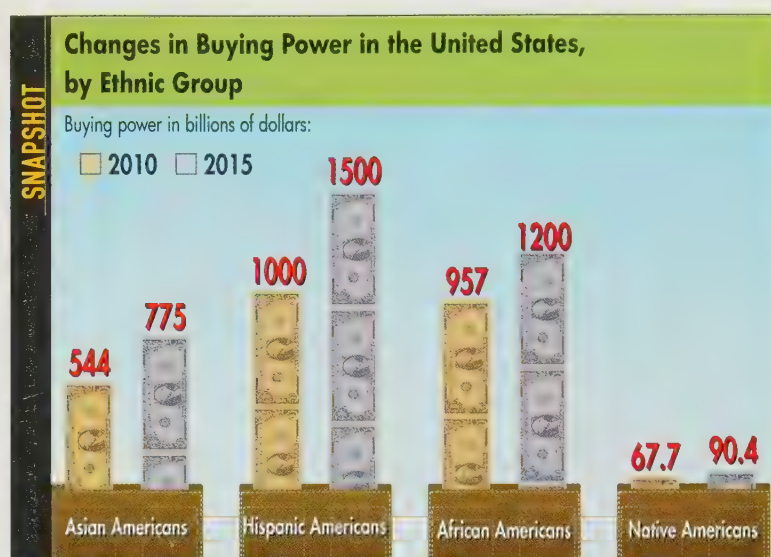
African American Subculture

In the United States, the African American subculture represents 12.6 percent of the population.¹⁹ Like all subcultures, African American consumers possess distinct buying patterns. For example, African American consumers spend much of their money on depreciable products such as clothing, entertainment, food, and more.²⁰ The combined buying power of African American consumers is projected to reach \$1.2 trillion by 2015.²¹

With the election of the first African American president, many companies are renewing their focus on the African American community. Coca-Cola has launched a series of campaigns aimed specifically at African American mothers and teenagers, stating that they are the decision makers and the trend setters in their demographic. Allstate, the insurance company, places a hefty emphasis on multicultural advertising. It runs the Beyond February program—a 365-day-a-year promise to support and grow the African American community.²²

Hispanic Subculture

Hispanics represent 16.3 percent of the U.S. population, and their buying power is expected to reach \$1.5 trillion by 2015.²³ Hispanic buying power is expected to increase 50 percent within the next five years.²⁴ This development makes this subculture a powerful and attractive consumer group for marketers. When considering the buying behavior of Hispanics, marketers must keep in mind that this subculture is



Source: "Despite Recession, Hispanic and Asian Buying Power Expected to Surge in U.S., According to Annual JGA Selig Center Multicultural Economy Study," Terry College of Business, November 4, 2010, www.terry.uga.edu/news/releases/2010/minority-buying-power-report.html (accessed June 28, 2011).



Hispanic Subculture

Marketers recognize the critical importance of understanding the Hispanic subculture.

really³ composed of many diverse cultures coming from a huge geographic region that encompasses nearly two dozen nationalities, including Cuban, Mexican, Puerto Rican, Caribbean, Spanish, and Dominican. Each has its own history and unique culture that affect consumer preferences and buying behavior. They should also recognize that the terms *Hispanic* and *Latino* refer to an ethnic category rather than a racial distinction. Because of the group's growth and purchasing power, understanding the Hispanic subculture is critical to marketers. Like African American consumers, Hispanics spend more of their income on housing, groceries, telephone services, children's apparel, and shoes, while they spend less than average on health care, entertainment, and education.²⁵

To attract this powerful subculture, marketers are developing products and creating advertising and promotions with Hispanic values and preferences in mind. For example, Colgate-Palmolive partnered with the Hispanic Dental Association to educate Hispanic families about proper oral care.²⁶ Insurance company Allstate partnered with Spanish-language network Telemundo to create a digital award show based upon viewers' favorite "novela moments." (Novelas are Spanish-language soap operas.) Viewers watched novelas on <http://msnlatino.telemundo.com> and voted for their favorite moments using 20 different categories.

Before the shows began, viewers saw an Allstate advertisement that promoted the company's insurance services. The campaign was meant to educate the Hispanic market about insurance and create brand awareness for the company.²⁷

Asian American Subculture

The term *Asian American* includes people from more than 15 ethnic groups, including Filipinos, Chinese, Japanese, Asian Indians, Koreans, and Vietnamese, and this group represents 4.8 percent of the U.S. population.²⁸ The individual language, religion, and value system of each group influences its members' purchasing decisions. Some traits of this subculture, however, carry across ethnic divisions, including an emphasis on hard work, strong family ties, and a high value placed on education. The combined buying power of Asian consumers is projected to reach \$775 billion by 2015, a growth rate of 42 percent.²⁹

Marketers are targeting the diverse Asian American market in many ways. Walmart stores have established a multicultural marketing department and new Asian American strategies, among other moves. Walmart launched a back-to-school micro-site in English and Vietnamese. The site was positioned as a back-to-school resource for study and clothing tips, school supplies, and other suggestions.³⁰

Consumer Misbehavior

Approaching the topic of inappropriate consumer behavior requires some caution because of varying attitudes and cultural definitions of what comprises misbehavior. However, there is general agreement that some conduct, such as shoplifting or purchasing illegal drugs, falls under the category of activities that are not accepted by established norms. Therefore, we will define **consumer misbehavior** as simply behavior that violates generally accepted norms of a particular society. Shoplifting is one of the most obvious misconduct areas, with organized retail crime (where people are paid to shoplift certain goods from retail stores) on the rise. Experts estimate that organized retail crime alone costs businesses nearly \$30 billion annually.³¹ Consumer motivation for shoplifting includes the low risk of being caught, a desire to be accepted by a group of peers (particularly among young people), and the excitement associated with the activity.

Consumer fraud includes purposeful actions to take advantage of and/or damage others. Fraudulently obtaining credit cards, checks, bank accounts, or false insurance claims fall into this category. Some consumers engage in identity theft, which is a serious and growing legal problem. Another example of consumer fraud would be purchasing a dress for a special event, wearing it once, and then returning it. To combat such behavior, Best Buy implemented a restocking fee to deal with consumers who purchased electronics, such as computers or televisions, used them for a short time, and then returned them.

Copying computer software, video games, movies, or music (also known as piracy) is illegal and costs the electronics and entertainment industries an estimated \$51 billion annually.³² The recording industry broadcasts messages explaining why sharing music may not be acceptable. Understanding motivations for piracy can be helpful in developing a plan to combat the issue. (See Table 6.5.)

Yet another area of concern with consumer misbehavior is abusive consumers. Rude customers engage in verbal or physical abuse, can be uncooperative, and may even break policies. Airlines remove abusive customers, because they represent a threat to employees and other passengers. Belligerently drunk customers, especially in environments like bars and restaurants, have to be removed in order to protect others. Understanding the psychological and social reasons for consumer misconduct can be helpful in preventing or responding to the problem.

consumer misbehavior

Behavior that violates generally accepted norms of a particular society.

TABLE 6.5 Motivations for Unethical or Illegal Misbehavior

• Justification/rationalization	• The thrill of getting away with it
• Economic reasons	• There is little risk of getting caught
• It is accepted by peers	• People think they are smarter than others

Source: Kevin J. Shanahan and Michael J. Hyman, "Motivators and Enablers of SCOURing: A Study of Online Piracy in the US and UK," *Journal of Business Research* 63 (September–October 2010): 1095–1102 (accessed March 31, 2011).

CHAPTER REVIEW

1 Recognize the stages of the consumer buying decision process.

The consumer buying decision process includes five stages: problem recognition, information search, evaluation of alternatives, purchase, and postpurchase evaluation. Not all decision processes culminate in a purchase, nor do all consumer decisions include all five stages. Problem recognition occurs when buyers become aware of a difference between a desired state and an actual condition. After recognizing the problem or need, buyers search for information about products to help resolve the problem or satisfy the need. In the internal search, buyers search their memories for information about products that might solve the problem. If they cannot retrieve from memory enough information for a decision, they seek additional information through an external search. A successful search yields a group of brands, called a consideration set, which a buyer views as possible alternatives. To evaluate the products in the consideration set, the buyer establishes certain criteria by which to compare, rate, and rank different products. Marketers can influence consumers' evaluations by framing alternatives. In the purchase stage, consumers select products or brands on the basis of results from the evaluation stage and on other dimensions. Buyers also choose the seller from whom they will buy the product. After the purchase, buyers evaluate the product to determine if its actual performance meets expected levels.

2 Understand the types of consumer decision making and the level of involvement.

Buying behavior consists of the decision processes and acts of people involved in buying and using products. Consumer buying behavior is the buying behavior of ultimate consumers. An individual's level of involvement—the importance and intensity of interest in a product in a particular situation—affects the type of decision making process used. Enduring involvement is an ongoing interest in a product class because of personal relevance, whereas situational involvement is a temporary interest that stems from the

particular circumstance or environment in which buyers find themselves. There are three kinds of consumer decision making: routinized response behavior, limited decision making, and extended decision making. Consumers rely on routinized response behavior when buying frequently purchased, low-cost items requiring little search-and-decision effort. Limited decision making is used for products purchased occasionally or when buyers need to acquire information about an unfamiliar brand in a familiar product category. Consumers engage in extended decision making when purchasing an unfamiliar, expensive, or infrequently bought product. Purchase of a certain product does not always elicit the same type of decision making. Impulse buying is not a consciously planned buying behavior but involves a powerful urge to buy something immediately.

3 Explore how situational influences may affect the consumer buying decision process.

Three major categories of influences affect the consumer buying decision process: situational, psychological, and social. Situational influences are external circumstances or conditions existing when a consumer makes a purchase decision. Situational influences include surroundings, time, reason for purchase, and the buyer's mood and condition.

4 Understand the psychological influences that may affect the consumer buying decision process.

Psychological influences partly determine people's general behavior, thus influencing their behavior as consumers. The primary psychological influences on consumer behavior are perception, motives, learning, attitudes, personality and self-concept, and lifestyles. Perception is the process of selecting, organizing, and interpreting information inputs (sensations received through sight, taste, hearing, smell, and touch) to produce meaning. The three steps in the perceptual process are selection, organization, and interpretation. Individuals have numerous perceptions of packages, products, brands, and organizations

that affect their buying decision processes. A motive is an internal energizing force that orients a person's activities toward satisfying needs or achieving goals. Learning refers to changes in a person's thought processes and behavior caused by information and experience. Marketers try to shape what consumers learn to influence what they buy. An attitude is an individual's enduring evaluation, feelings, and behavioral tendencies toward an object or idea and consists of three major components: cognitive, affective, and behavioral. Personality is the set of traits and behaviors that make a person unique. Self-concept, closely linked to personality, is one's perception or view of oneself. Researchers have found that buyers purchase products that reflect and enhance their self-concepts. Lifestyle is an individual's pattern of living expressed through activities, interests, and opinions. Lifestyles influence consumers' needs, brand preferences, and how and where they shop.

5 Examine the social influences that may affect the consumer buying decision process.

Social influences are forces that other people exert on buying behavior. They include roles, family, reference groups and opinion leaders, electronic networks, social class, and culture and subcultures. Everyone occupies positions within groups, organizations, and institutions, and each position has a role—a set of actions and activities that a person in a particular position is supposed to perform based on expectations of both the individual and surrounding persons. In a family, children learn from parents and older siblings how to make decisions, such as purchase decisions. Consumer socialization is the process through which a person acquires the knowledge and skills to function as a consumer. The consumer socialization process is partially accomplished through family influences. A reference group is a group that a person identifies with so strongly that he or she adopts the values, attitudes, and behavior of group members.

The three major types of reference groups are membership, aspirational, and disassociative. An opinion leader is a member of an informal group who provides information about a specific topic to other group members. A social class is an open group of individuals with similar social rank. Social class influences people's spending, saving, and credit practices. Culture is the accumulation of values, knowledge, beliefs, customs, objects, and concepts that a society uses to cope with its environment and passes on to future generations. A culture is made up of subcultures, groups of individuals whose characteristic values and behavior patterns are similar but different from those of the surrounding culture. U.S. marketers focus on three major ethnic subcultures: African American, Hispanic, and Asian American.

6 Examine consumer misbehavior.

Consumer misbehavior is defined as behavior that violates generally accepted norms of a particular society. One form of consumer misbehavior involves shoplifting, or stealing goods from retail stores. Organized retail crime is on the rise and involves people paying others to shoplift certain goods from retail stores, which are then usually sold on the black market. Another form of consumer misbehavior is consumer fraud, which involves purposeful actions to take advantage of and/or damage others. Common examples of consumer fraud are false insurance claims, identity theft, returning an item of clothing after wearing it, and fraudulently obtaining credit cards, checks, and bank accounts. Another form of consumer misbehavior is the copying or sharing of music, movies, video games, and computer software. One final area of concern with regards to consumer misbehavior is abusive consumers, which include customers who are rude, verbally or physically abusive, and/or uncooperative, which may violate some companies' policies. In order to respond to or even prevent these growing problems, organizations need to understand the psychological and social reasons for consumer misbehavior.

ONLINE RESOURCES

Please visit the student website at www.engagelearning.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

buying behavior 147	impulse buying 152	attitude scale 159
consumer buying behavior 147	situational influences 152	personality 160
consumer buying decision process 147	psychological influences 153	self-concept 160
internal search 148	perception 153	lifestyle 161
external search 148	information inputs 153	social influences 162
consideration set 149	selective exposure 154	roles 162
evaluative criteria 149	selective distortion 154	consumer socialization 162
cognitive dissonance 150	selective retention 154	reference group 164
level of involvement 150	motive 155	opinion leader 164
routinized response behavior 151	Maslow's hierarchy of needs 155	social class 165
limited decision making 151	patronage motives 156	culture 168
extended decision making 151	learning 156	subculture 168
	attitude 157	consumer misbehavior 171

ISSUES FOR DISCUSSION AND REVIEW

1. What are the major stages in the consumer buying decision process? Are all these stages used in all consumer purchase decisions? Why or why not?
2. How does a consumer's level of involvement affect his or her choice of decision making process?
3. Name the types of consumer decision making processes. List some products you have bought using each type. Have you ever bought a product on impulse? If so, describe the circumstances.
4. What are the categories of situational factors that influence consumer buying behavior? Explain how each of these factors influences buyers' decisions.
5. What is selective exposure? Why do people engage in it?
6. How do marketers attempt to shape consumers' learning?
7. Why are marketers concerned about consumer attitudes?
8. In what ways do lifestyles affect the consumer buying decision process?
9. How do roles affect a person's buying behavior? Provide examples.
10. What are family influences, and how do they affect buying behavior?
11. What are reference groups? How do they influence buying behavior? Name some of your own reference groups.
12. How does an opinion leader influence the buying decision process of reference group members?
13. How might consumer behavior be influenced by digital networks?
14. In what ways does social class affect a person's purchase decisions?
15. What is culture? How does it affect a person's buying behavior?
16. Describe the subcultures to which you belong. Identify buying behavior that is unique to one of your subcultures.
17. What is consumer misbehavior? Describe the various forms of consumer misbehavior.

MARKETING APPLICATIONS

1. Consumers use one of three decision-making processes when purchasing goods or services: routinized response behavior, limited decision making, or extended decision making. Describe three buying experiences you have had (one for each type of decision making), and identify which decision-making type you used. Discuss why that particular process was appropriate.
2. The consumer buying process consists of five stages: problem recognition, information search, evaluation of alternatives, purchase, and post-purchase evaluation. Not every buying decision goes through all five stages, and the process does not necessarily conclude in a purchase. Interview a classmate about the last purchase he or she made. Report the stages used and those skipped, if any.
3. Attitudes toward products or companies often affect consumer behavior. The three components of an attitude are cognitive, affective, and behavioral. Briefly describe how a beer company might alter the cognitive and affective components of consumer attitudes toward beer products and toward the company.
4. An individual's roles influence that person's buying behavior. Identify two of your roles, and give an example of how they have influenced your buying decisions.
5. Select five brands of toothpaste and explain how the appeals used in advertising these brands relate to Maslow's hierarchy of needs.

ONLINE EXERCISE

6. Some mass-market e-commerce sites, such as Amazon.com, have extended the concept of customization to their customer base. Amazon.com has created an affinity group by drawing on certain users' likes and dislikes to make product recommendations to other users. Check out this pioneering online retailer at www.amazon.com.
 - a. What might motivate some consumers to read a "Top Selling" list?
 - b. Is the consumer's level of involvement with an online book purchase likely to be high or low?
 - c. Discuss the consumer buying decision process as it relates to a decision to purchase from Amazon.com.

DEVELOPING YOUR MARKETING PLAN

Understanding the process that an individual consumer goes through when purchasing a product is essential for developing marketing strategy. Knowledge about the potential customer's buying behavior will become the basis for many of the decisions in the specific marketing plan. Using the information from this chapter, you should be able to determine the following:

1. What type of decision making are your customers likely to use when purchasing your product? (See Table 6.1.)
2. Determine the evaluative criteria that your target market(s) would use when choosing between alternative brands.

3. Using Table 6.2, what types of family decision making, if any, would your target market(s) use?
4. Identify the reference groups or subcultures that may influence your target market's product selection.

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

CLICK TO GET AWAY WITH TRAVELOCITY

When Travelocity began in 1996, it was one of the first Internet travel websites offering airline and hotel reservations, cruises, vacation packages, and car rentals. Today, Travelocity offers consumers a choice of more than 70,000 hotels, 50 car rental companies, 6,000 travel packages, and flights on dozens of airlines worldwide. Its total travel bookings exceed more than \$7 billion annually.

Although it helped pioneer the online travel business, Travelocity faces intense competition from Expedia, Orbitz, and other popular travel websites. That's why its marketers decided several years ago to make the company stand out by standing behind travelers every step of the way. The result is the unique Travelocity Guarantee. First, Travelocity guarantees its low price. If, within 24 hours, consumers find a lower price for travel than the one they booked through Travelocity, the company will refund the difference and add a \$50 credit toward future travel. Second, Travelocity allows customers to change passenger names, flight dates, and flight times without paying extra if they make the change within 24 hours of booking their travel. Third, Travelocity pledges to alert customers in advance to any issues that might negatively affect their travel arrangements, such as hotel construction, and work with its trusted partners to fix the problem by switching hotels or making other changes. Fourth, if something goes wrong during a customer's travels, Travelocity will work with its partners to make things right. For example, if a customer books a hotel with a swimming pool but finds that the swimming pool is closed on arrival, Travelocity will, at its own expense, find a comparable or better-quality hotel and move the customer there. Once, the company made a mistake and sold \$0 tickets to Fiji and, despite the cost, stood by its guarantee and honored the price. Travelocity maintains a 24-hour hotline open seven days a week to ensure that customers get what they want.

The Travelocity Guarantee allays the concerns of customers who may be worried about booking online. The company has promoted the guarantee with a "Roaming Gnome: Enforcer of the Travelocity Guarantee" advertising campaign. The distinctive Roaming Gnome humanized the brand, embodied

the joy of travel, and symbolized seeing the world with new eyes. The advertising campaign created a tremendous buzz about Travelocity and boosted revenues by 37 percent. Based on customer reaction to the campaign, Travelocity opened an online store to sell mugs, magnets, tote bags, and other items featuring the Roaming Gnome, who even has his own page on Facebook.

Over time, Travelocity has acquired a number of travel sites to broaden its offerings. When it purchased Site59, for example, Travelocity solidified its position as a major player in the last-minute travel business. Now customers who feel the urge to travel can get special deals by booking no more than 14 days before they want to leave. The savings are even bigger when customers book a vacation package just a few days in advance. To find out about special deals to favorite destinations, customers simply subscribe to Travelocity's Easy Escapes e-mail newsletter.

Travelocity regularly tests its website for ease of use. It has seven testers clicking all over its website to determine what customers might find confusing and how to make the site faster and more convenient. One lesson Travelocity learned was that customers don't always remember their passwords. To counteract this problem, Travelocity changed the system so that customers could reenter an address or e-mail address and use those details to access their personal profile rather than relying on a password. Thanks to this change, revenues quickly rose by 10 percent. Watch for more changes ahead as Travelocity finds new ways to satisfy its customers and new places for its Gnome to visit.³³

QUESTIONS FOR DISCUSSION

1. How does the Travelocity Guarantee give Travelocity a competitive advantage in various stages of the consumer buying decision process?
2. What is Travelocity doing to influence consumer perceptions of and attitudes toward its product offerings?
3. What are the major situational influences that affect Travelocity customers' buying decisions? Explain.

CHAPTER 7

Business Markets and Buying Behavior



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MARKETING INSIGHTS

How Bombardier's Marketing Moves Trains and Planes

Bombardier is all about trains and planes. Founded by Joseph-Armand Bombardier in 1942, the company originally sold snowmobiles in Canada's Quebec province. Today, Bombardier's primary markets are governments and businesses that purchase aerospace and railroad-related products.

For example, SkyWest Airlines recently ordered four regional jets from Bombardier for nearly \$150 million. To seal such sales, Bombardier emphasizes fuel efficiency, low operating costs, and other bottom-line benefits. The exact configuration of each jet is customized airline by airline, which means every order represents a major investment of time, energy, and negotiations for buyer and seller alike.

Both commercial airlines and corporate buyers expect a high level of customer service when they purchase a new jet. To meet their needs, Bombardier operates round-the-clock customer response centers staffed by specialists who understand each product inside and out, from engineering and technical systems to parts and supplies. When customers call, the company is ready to help get their planes back in the air as quickly as possible.

Also, rail transportation is booming as countries and urban centers upgrade their infrastructures. Although no two government buyers have the same requirements, Bombardier knows that quality, reliability, safety, and price are major concerns in railroad purchases. Therefore, to compete with General Electric and others, the company showcases its manufacturing expertise and many satisfied customers worldwide.

From its current level of \$17.7 billion in revenue and a workforce of more than 65,000 employees on five continents, Bombardier is poised for better performance as its business marketing takes off.¹

OBJECTIVES:

- 1 Distinguish among the various types of business markets.
- 2 Identify the major characteristics of business customers and transactions.
- 3 Understand several attributes of demand for business products.
- 4 Become familiar with the major components of a buying center.
- 5 Understand the stages of the business buying decision process and the factors that affect this process.
- 6 Describe industrial classification systems, and explain how they can be used to identify and analyze business markets.

Serving business markets effectively requires understanding those markets. Marketers at Bombardier go to considerable lengths to understand their customers so they can provide better products and develop and maintain long-term customer relationships. Like consumer marketers, business marketers are concerned about satisfying their customers.

In this chapter, we look at business markets and business buying decision processes. We first discuss various kinds of business markets and the types of buyers that comprise those markets. Next, we explore several dimensions of business buying, such as characteristics of transactions, attributes and concerns of buyers, methods of buying, and distinctive features of demand for products sold to business purchasers. We then examine how business buying decisions are made and who makes the purchases. Finally, we consider how business markets are analyzed.

Business Markets

As defined in Chapter 5, a business market (also called a *business-to-business market* or *B2B market*) consists of individuals, organizations, or groups that purchase a specific kind of product for one of three purposes: resale, direct use in producing other products, or use in general daily operations. Marketing to businesses employs the same concepts as marketing to ultimate consumers—such as defining target markets, understanding buying behavior, and developing effective marketing mixes—but we devote a complete chapter to business marketing because there are structural and behavioral differences in business markets. A company that markets to another company

must understand how its product will affect other firms in the marketing channel, such as resellers and other manufacturers. Business products can also be technically complex, and the market often consists of sophisticated buyers.

Because the business market consists of relatively smaller customer populations, a segment of the market could be as small as a few customers.² The market for railway equipment in the United States, for example, is limited to a few major carriers. On the other hand, a business product can be a commodity, such as corn or a bolt or screw, but the quantity purchased and the buying methods differ significantly from the consumer market. Business marketing is often based on long-term mutually profitable relationships across members of the marketing channel. Networks of suppliers and customers recognize the importance of building strong alliances based on cooperation, trust, and collaboration.³ Manufacturers may even co-develop new products, with business customers sharing marketing research, production, scheduling, inventory management, and information systems. Although business marketing can be based on collaborative long-term buyer–seller relationships, there are also transactions based on timely exchanges of basic products at highly competitive market prices. For most business marketers, the goal is understanding customer needs and providing a value-added exchange that shifts from attracting customers to keeping customers and developing relationships.

The four categories of business markets are producer, reseller, government, and institutional. In the remainder of this section, we discuss each of these types of markets.



Producer Markets

Fellowes manufactures shredders. The companies that sell raw materials, equipment, and component parts to Fellowes and other manufacturers are serving producer markets.

PRODUCER MARKETS

Individuals and business organizations that purchase products for the purpose of making a profit by using them to produce other products or using them in their operations are classified as **producer markets**. Producer markets include buyers of raw materials, as well as purchasers of semifinished and finished items, used to produce other products. For instance, manufacturers buy raw materials and component parts for direct use in product production. Grocery stores and supermarkets are part of producer markets for numerous support products such as paper and plastic bags, shelves, counters, and scanners. Farmers are part of producer markets for farm machinery, fertilizer, seed, and livestock. Producer markets include a broad array of industries ranging from agriculture, forestry, fisheries, and mining to construction, transportation, communications, and utilities. As Table 7.1 indicates, the number of business establishments in national producer markets is enormous.

Manufacturers are geographically concentrated. More than half are located in just seven states: New York, California, Pennsylvania, Illinois, Ohio, New Jersey, and Michigan. This concentration sometimes enables businesses that sell to producer markets to serve them more efficiently. Within certain states, production in a specific industry may account for a sizable proportion of that industry’s total production.

RESELLER MARKETS

Reseller markets consist of intermediaries, such as wholesalers and retailers, which buy finished goods and resell them for a profit. Aside from making minor alterations, resellers do not change the physical characteristics of the products they handle. Except for items producers sell directly to consumers, all products sold to consumer markets are first sold to reseller markets.

Wholesalers purchase products for resale to retailers, other wholesalers, producers, governments, and institutions. Arrow Electronics, for example, buys computer chips and other electronics components and resells them to producers of subsystems for cell phones, computers, and automobiles. Of the more than 430,000 wholesalers in the United States, a large number are located in New York, California, Illinois, Texas, Ohio, Pennsylvania, New Jersey, and Florida.⁴ Although some products are sold directly to end users, many manufacturers sell their products to wholesalers, which in turn sell the products to other firms in the

producer markets

Individuals and business organizations that purchase products to make profits by using them to produce other products or using them in their operations

reseller markets

Intermediaries that buy finished goods and resell them for a profit

TABLE 7.1 Number of Establishments in Industry Groups

Industry	Number of Establishments
Forestry, fishing, hunting, and agriculture	23,600
Mining	26,200
Construction	811,500
Manufacturing	331,400
Transportation, warehousing, and utilities	236,500
Finance, insurance, and real estate	888,200

Source: U.S. Bureau of the Census, *Statistical Abstract of the United States, 2011*, Table 758, www.census.gov/compendia/statab/2011/tables/110758.pdf.

Emerging Trends in Marketing



The Big Battle in High-Tech Glass

Y our favorite handheld digital gadget is the latest battleground for marketers of high-tech glass. If you've ever scratched the screen of your smartphone or e-book reader, you know the importance of strong, high-quality glass. As demand for electronic devices continues to grow, the market for screens and other components is only going to get more lucrative.

Now Asahi Glass, based in Tokyo, is squaring off against Corning, based in Corning, New York, in a high-stakes battle

for market share in touchscreen glass. Corning, the market leader, promotes its Gorilla Glass as thin yet scratch resistant, which is why it's used in everything from Droid phones to Dell tablet computers. Asahi's Dragontail glass, just introduced, is marketed as tough and clear, also able to resist scratches. As the challenger, Asahi is aiming for \$350 million in annual sales within two years. But can it catch up to Corning, which rings up \$1 billion in annual sales of Gorilla Glass?^a

distribution system. Thus, wholesalers are very important in helping producers get products to customers.

Retailers purchase products and resell them to final consumers. There are approximately 1.1 million retailers in the United States, employing almost 16 million people and generating approximately \$3.7 trillion in annual sales.⁵ Half of the top 10 largest retail companies in the world are based in the United States. These retailers include Walmart, The Kroger Co., Home Depot, Costco, and Target.⁶ Some retailers—Home Depot, PetSmart, and Staples, for example—carry a large number of items. Supermarkets may handle as many as 50,000 different products. In small, individually owned retail stores, owners or managers make purchasing decisions. In chain stores, a central office buyer or buying committee frequently decides whether a product will be made available for selection by store managers. For many products, however, local managers make the actual buying decisions for a particular store.

When making purchase decisions, resellers consider several factors. They evaluate the level of demand for a product to determine in what quantity and at what prices the product can be resold. Retailers assess the amount of space required to handle a product relative to its potential profit, sometimes on the basis of sales per square foot of selling area. Because customers often depend on resellers to have products available when needed, resellers typically appraise a supplier's ability to provide adequate quantities when and where wanted. Resellers also take into account the ease of placing orders and the availability of technical assistance and training programs from producers. When resellers consider buying a product not previously carried, they try to determine whether the product competes with or complements products they currently handle. These types of concerns distinguish reseller markets from other markets.

GOVERNMENT MARKETS

government markets

Federal, state, county, or local governments that buy goods and services to support their internal operations and provide products to their constituencies

Federal, state, county, and local governments make up **government markets**. These markets spend billions of dollars annually for a variety of goods and services, ranging from office supplies and health care services to vehicles, heavy equipment, and weapons, to support their internal operations and provide citizens with such products as highways, education, water, energy, and national defense. The federal government spends more than \$719 billion

annually on national defense alone. Government expenditures annually account for about 25 percent of the U.S. gross domestic product.⁷ Besides the federal government, there are 50 state governments, 3,033 county governments, and 89,476 local governments.⁸ The amount spent by federal, state, and local units during the past 30 years has increased rapidly because the total number of government units, and the services they provide, have both increased. Costs of providing these services have also risen.

Government contracts are awarded to firms of all sizes and across a wide variety of industries. One example is Nashville-based Film House, a firm that specializes in TV commercials and film production. For more than 10 years, Film House has been granted government contracts to produce TV and radio spot announcements for the American Forces Radio and Television Service.⁹ Although it is common to hear of large corporations being awarded government contracts, in fact, businesses of all sizes market to government agencies.

Because government agencies spend public funds to buy the products needed to provide services, they are accountable to the public. This accountability explains their relatively complex set of buying procedures. Some firms do not even try to sell to government buyers because they want to avoid the tangle of red tape. However, many marketers have learned to deal efficiently with government procedures and do not find them to be a stumbling block. For certain products, such as defense-related items, the government may be the only customer. The U.S. Government Printing Office publishes and distributes several documents that explain buying procedures and describe the types of products various federal agencies purchase.

Governments make purchases through bids or negotiated contracts. Although companies may be reluctant to approach government markets because of the complicated bidding process, once they understand the rules of this process, some firms routinely penetrate government markets. To make a sale under the bid system, firms must apply and be approved for placement on a list of qualified bidders. When a government unit wants to buy, it sends out a detailed description of the products to qualified bidders. Businesses that want to sell such products submit bids. The government unit is usually required to accept the lowest bid.

When buying nonstandard or highly complex products, a government unit often uses a negotiated contract. Under this procedure, the government unit selects only a few firms and then negotiates specifications and terms; it eventually awards the contract to one of the negotiating firms. Most large defense-related contracts, once held by such companies as McDonnell Douglas and General Dynamics, traditionally were negotiated in this fashion. However, as the number and size of such contracts have declined, these companies have had to strengthen their marketing efforts and look to other markets. Although government markets can impose intimidating requirements, they can also be very lucrative.

INSTITUTIONAL MARKETS

Organizations with charitable, educational, community, or other nonbusiness goals constitute **institutional markets**. Members of institutional markets include churches, some hospitals, fraternities and sororities, charitable organizations, and private colleges. Institutions purchase millions of dollars' worth of products annually to provide goods, services, and ideas to congregations, students, patients, and others. Because institutions often have different goals and fewer resources than other types of organizations, marketers may use special marketing efforts to serve them. For example, Hussey Seating in Maine sells stadium seating to schools, colleges, churches, and other institutions, as well as to sports arenas around the world. The family-owned business shows its support for institutional customers through assistance with school funding and reduced-cost construction of local economic development projects.

institutional markets

Organizations with charitable, educational, community, or other nonbusiness goals

Institutional Markets

Manufacturers of pipe organs provide products to an institutional market, such as churches.



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Dimensions of Marketing to Business Customers

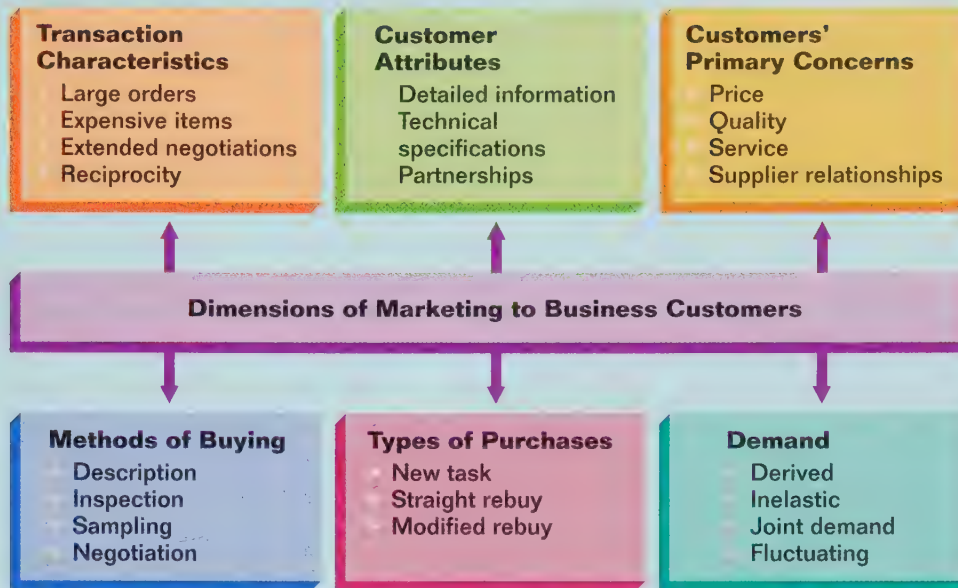
Now that we have considered different types of business customers, we look at several dimensions of marketing to them, including transaction characteristics, attributes of business customers and some of their primary concerns, buying methods, major types of purchases, and the characteristics of demand for business products (see Figure 7.1).

CHARACTERISTICS OF TRANSACTIONS WITH BUSINESS CUSTOMERS

Transactions between businesses differ from consumer sales in several ways. Orders by business customers tend to be much larger than individual consumer sales. Consider that Turkish Airlines recently placed an order for 15 of Boeing's 737 aircrafts. In total, the order was worth more than \$1.2 billion.¹⁰ Suppliers often must sell products in large quantities to make profits; consequently, they prefer not to sell to customers who place small orders.

Some business purchases involve expensive items, such as computer systems. Other products, such as raw materials and component items, are used continuously in production, and their supply may need frequent replenishing. The contract regarding terms of sale of these items is likely to be a long-term agreement.

Discussions and negotiations associated with business purchases can require considerable marketing time and selling effort. Purchasing decisions are often made by committee, orders are frequently large and expensive, and products may be custom built. Several people or departments in the purchasing organization are often involved. For example, one department expresses a need for a product, a second department develops the specifications, a third stipulates maximum expenditures, and a fourth places the order.

FIGURE 7.1 Dimensions of Marketing to Business Customers

One practice unique to business markets is **reciprocity**, an arrangement in which two organizations agree to buy from each other. Reciprocal agreements that threaten competition are illegal. The Federal Trade Commission and the Justice Department take actions to stop anticompetitive reciprocal practices. Nonetheless, a certain amount of reciprocal activity occurs among small businesses and, to a lesser extent, among larger companies. Because reciprocity influences purchasing agents to deal only with certain suppliers, it can lower morale among agents and lead to less than optimal purchases.

ATTRIBUTES OF BUSINESS CUSTOMERS

Business customers differ from consumers in their purchasing behavior because they are better informed about the products they purchase. They typically demand detailed information about a product's functional features and technical specifications to ensure that it meets their needs. Personal goals, however, may also influence business buying behavior. Most purchasing agents seek the psychological satisfaction that comes with organizational advancement and financial rewards. Agents who consistently exhibit rational business buying behavior are likely to attain these personal goals because they help their firms achieve organizational objectives. Today, many suppliers and their customers build and maintain mutually beneficial relationships, sometimes called *partnerships*. Researchers find that even in a partnership between a small vendor and a large corporate buyer, a strong partnership exists because high levels of interpersonal trust can lead to higher levels of commitment to the partnership by both organizations.¹¹

PRIMARY CONCERNS OF BUSINESS CUSTOMERS

When making purchasing decisions, business customers take into account a variety of factors. Among their chief considerations are price, product quality, service, and supplier relationships. Obviously, price matters greatly to business customers because it influences operating

reciprocity

An arrangement unique to business marketing in which two organizations agree to buy from each other.

Entrepreneurship in Marketing



Google Aims to Re-ignite Start-up Spark

The Internet was still young when Google launched its search engine in 1998. Despite fierce competition from Yahoo! and other search sites, Google built its brand by introducing a steady stream of innovative services for businesses and consumers. Today, Google dominates the search industry and rings up \$29 billion in annual sales, mostly from the sale of advertising displayed alongside search results, YouTube videos, and other Google websites.

Yet Google—successful by any measure—recently made a major top-management change by naming Larry Page, one of the cofounders, as CEO. Why? Page explains: “One of the primary goals I have is to get Google to be a big company that has the nimbleness and soul and passion and speed of a start-up.”

To maintain its competitive edge, Google is branching out into other areas. The company is capitalizing on growth in cell phone usage by tailoring ads for viewing on phone screens. This allows business advertisers to reach out to customers anytime, anywhere that people use any electronic device to access Google.^b

costs and costs of goods sold, which in turn affect selling price, profit margin, and ultimately the ability to compete. When purchasing major equipment, a business customer views price as the amount of investment necessary to obtain a certain level of return or savings. A business customer is likely to compare the price of a product with the benefits the product will yield to the organization, often over a period of years.

Most business customers try to achieve and maintain a specific level of quality in the products they buy. To achieve this goal, most firms establish standards (usually stated as a percentage of defects allowed) for these products and buy them on the basis of a set of expressed characteristics, commonly called *specifications*. A customer evaluates the quality of the products being considered to determine whether they meet specifications. If a product fails to meet specifications or malfunctions for the ultimate consumer, the customer may drop that product's supplier and switch to a different one. On the other hand, customers are ordinarily cautious about buying products that exceed specifications because such products often cost more, thus increasing the organization's overall costs. Specifications are designed to meet a customer's wants, and anything that does not contribute to meeting those wants may be considered wasteful.

Business buyers value service. Services offered by suppliers directly and indirectly influence customers' costs, sales, and profits. In some instances, the mix of customer services is the major means by which marketers gain a competitive advantage. Procter & Gamble, for example, provided Wendy's International with customized videos and laminated guides to show Wendy's employees how to use its industrial cleaning supplies to clean every part of each restaurant. Typical services customers desire are market infor-

mation, inventory maintenance, on-time delivery, and repair services. Business buyers are likely to need technical product information, data regarding demand, information about general economic conditions, or supply and delivery information. Maintaining adequate inventory is critical because it helps make products accessible when a customer needs them and reduces the customer's inventory requirements and costs. Because business customers are usually responsible for ensuring that products are on hand and ready for use when needed, on-time delivery is crucial. Furthermore, reliable, on-time delivery saves business customers money because it enables them to carry less inventory. Purchasers of machinery are especially concerned about obtaining repair services and replacement parts quickly because inoperable equipment is costly. Caterpillar Inc., manufacturer of earth-moving, construction, and materials-handling machinery, has built an international reputation, as well as a competitive advantage, by providing prompt service and replacement parts for its products around the world.¹²

Quality of service is a critical issue because customer expectations about service have broadened. Using traditional service quality standards based only on traditional manufacturing and accounting systems is not enough. Communication channels that allow customers to ask questions, voice complaints, submit orders, and trace shipments are indispensable components of service. Marketers should strive for uniformity of service, simplicity, truthfulness, and accuracy. They should also develop customer service objectives and monitor

customer service programs. Firms can monitor service by formally surveying customers or informally calling on customers and asking questions about the service they receive. Expending the time and effort to ensure that customers are happy can greatly benefit marketers by increasing customer retention.

Finally, business customers are concerned about the costs of developing and maintaining relationships with their suppliers. By developing relationships and building trust with a particular supplier, buyers can reduce their search efforts and uncertainty about monetary prices. Research also demonstrates that satisfaction and perceived product quality in B2B relationships foster loyalty and future purchase intentions. Business customers have to keep in mind the overall fit of a purchase, including its potential to reduce inventory and carrying costs, as well as to increase inventory turnover and ability to move the right products to the right place at the right time.

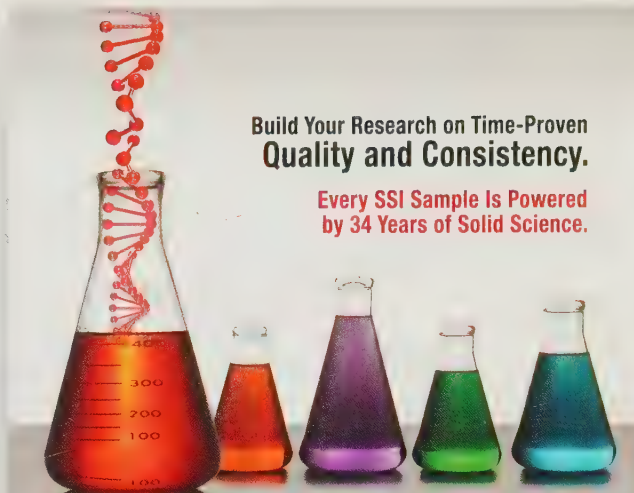
METHODS OF BUSINESS BUYING

Although no two business buyers do their jobs the same way, most use one or more of the following purchase methods: *description*, *inspection*, *sampling*, and *negotiation*. When products are standardized according to certain characteristics (such as size, shape, weight, and color) and graded using such standards, a business buyer may be able to purchase simply by describing or specifying quantity, grade, and other attributes. Agricultural products often fall into this category. Sometimes buyers specify a particular brand or its equivalent when describing the desired product. Purchases on the basis of description are especially common between a buyer and seller with an ongoing relationship built on trust.

Certain products, such as industrial equipment, used vehicles, and buildings, have unique characteristics and may vary with regard to condition. For example, a particular used truck may have a bad transmission. Consequently, business buyers of such products must base purchase decisions on inspection.

Sampling entails taking a specimen of the product from the lot and evaluating it on the assumption that its characteristics represent the entire lot. This method is appropriate when the product is homogeneous—for instance, grain—and examining the entire lot is not physically or economically feasible.

Some purchases by businesses are based on negotiated contracts. In certain instances, buyers describe exactly what they need and ask sellers to submit bids. They then negotiate with the suppliers that submit the most attractive bids. This approach may be used when acquiring commercial vehicles, for example. In other cases, the buyer may be unable to identify specifically what is to be purchased and can provide only a general description, as might be the case for a piece of custom-made equipment. A buyer and seller might negotiate a contract that specifies a base price and provides for the payment of additional costs and fees. These contracts are most commonly used for onetime projects such as buildings, capital equipment, and special projects.



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Concerns of Business Customers

Business customers are concerned about numerous factors, including getting the right product that works effectively.

TYPES OF BUSINESS PURCHASES

Most business purchases are one of three types: new-task, straight rebuy, or modified rebuy purchase. Each type is subject to different influences and thus requires business marketers to modify their selling approaches appropriately.¹³ For a **new-task purchase**, an organization makes an initial purchase of an item to be used to perform a new job or solve a new problem. A new-task purchase may require development of product specifications, vendor specifications, and procedures for future purchases of that product. To make the initial purchase, the business buyer usually needs much information. New-task purchases are important to suppliers because if business buyers are satisfied with the products, suppliers may be able to sell buyers large quantities of them for many years.

A **straight rebuy purchase** occurs when buyers purchase the same products routinely under approximately the same terms of sale. Buyers require little information for these routine purchase decisions and tend to use familiar suppliers that have provided satisfactory service and products in the past. These marketers try to set up automatic reordering systems to make reordering easy and convenient for business buyers. A supplier may even monitor the business buyer's inventories and indicate to the buyer what should be ordered and when.

For a **modified rebuy purchase**, a new-task purchase is changed the second or third time it is ordered, or requirements associated with a straight rebuy purchase are modified. A business buyer might seek faster delivery, lower prices, or a different quality level of product specifications. A modified rebuy situation may cause regular suppliers to become more competitive to keep the account because other suppliers could obtain the business. When a firm changes the terms of a service contract, such as for telecommunication services, it has made a modified purchase.

new-task purchase

An organization's initial purchase of an item to be used to perform a new job or solve a new problem

straight rebuy purchase

A routine purchase of the same products under approximately the same terms of sale by a business buyer

modified rebuy purchase

A new-task purchase that is changed on subsequent orders or when the requirements of a straight rebuy purchase are modified

derived demand

Demand for business products that stems from demand for consumer products

inelastic demand

Demand that is not significantly altered by a price increase or decrease

DEMAND FOR BUSINESS PRODUCTS

Unlike consumer demand, demand for business products (also called *industrial demand*) can be characterized as (1) derived, (2) inelastic, (3) joint, or (4) fluctuating.

Derived Demand

Because business customers, especially producers, buy products for direct or indirect use in the production of goods and services to satisfy consumers' needs, the demand for business products derives from the demand for consumer products; it is therefore called **derived demand**. In the long run, no demand for business products is totally unrelated to the demand for consumer products. The derived nature of demand is usually multilevel. Business marketers at different levels are affected by a change in consumer demand for a particular product. For instance, consumers have become concerned with health and good nutrition and, as a result, are purchasing more products with less fat, cholesterol, and sodium. When consumers reduced their purchases of high-fat foods, a change occurred in the demand for products marketed by food processors, equipment manufacturers, and suppliers of raw materials associated with these products. Change in consumer demand for a product affects demand for all firms involved in the production of that product.

Inelastic Demand

With **inelastic demand**, a price increase or decrease will not significantly alter demand for a business product. Because some business products contain a number of parts, price increases that affect only one or two parts may yield only a slightly higher per-unit production cost. When a sizable price increase for a component represents a large proportion of the product's cost, demand may become more elastic because the price increase in the component causes the price at the consumer level to rise sharply. For example, if aircraft

engine manufacturers substantially increase the price of engines, forcing Boeing to raise the prices of the aircraft it manufactures, the demand for airliners may become more elastic as airlines reconsider whether they can afford to buy new aircraft. An increase in the price of windshields, however, is unlikely to greatly affect either the price of or the demand for airliners.

Inelasticity applies only to industry demand for business products, not to the demand an individual firm faces. Suppose a spark plug producer increases the price of spark plugs sold to small-engine manufacturers, but its competitors continue to maintain lower prices. The spark plug company will probably experience reduced unit sales because most small-engine producers will switch to lower-priced brands. A specific firm is vulnerable to elastic demand, even if industry demand for a specific business product is inelastic.

Joint Demand

Demand for certain business products, especially raw materials and components, is subject to joint demand.

Joint demand occurs when two or more items are used in combination to produce a product. Consider a firm that manufactures axes. The firm will need the same number of ax handles as it does ax blades; these two products thus are demanded jointly. If a shortage of ax handles exists, the producer buys fewer ax blades. Understanding the effects of joint demand is particularly important for a marketer that sells multiple jointly demanded items. Such a marketer realizes that when a customer begins purchasing one of the jointly demanded items, a good opportunity exists to sell related products.

Fluctuating Demand

Because the demand for business products is derived from consumer demand, it may fluctuate enormously. In general, when particular consumer products are in high demand, their producers buy large quantities of raw materials and components to ensure meeting long-run production requirements. In addition, these producers may expand production capacity, which entails acquiring new equipment and machinery, more workers, and more raw materials and component parts. Conversely, a decline in demand for certain consumer goods significantly reduces demand for business products used to produce those goods. For example, when demand for steel products went down during the recession, Nucor, America's largest steel maker, was able to sustain smaller product losses compared to other steel makers because of how the company dealt with the fluctuating demand. Because its electric furnaces can be turned on and off quicker, Nucor was able to waste less energy by turning off the furnaces when low demand caused the furnaces to not need to be used.¹⁴

Marketers of business products may notice changes in demand when customers alter inventory policies, perhaps because of expectations about future demand. For example, if several dishwasher manufacturers that buy timers from one producer increase their inventory of

Derived Demand

Intel attempts to generate derived demand by promoting that its products are inside the computers made by companies like HP. The sale of computers made by HP and other companies generates demand for Intel products.

joint demand

Demand involving the use of two or more items in combination to produce a product

Marketing Debate



Ethical Buyers: Just Say No

ISSUE: *Are some businesses too strict when it comes to supplier gifts?*

Can a company's buyer code of ethics be too strict? Walmart forbids buyers from accepting anything at all from suppliers. "Since such gifts and entertainment increase the cost of doing business, we help our suppliers to give us low costs on products by not expecting the gifts and entertainment they may have to spend on other customers," says the Statement of Ethics. Walmart wants buyers to ask themselves: "Would this business be offering me this gift or gratuity if I wasn't employed by Walmart?" If the answer is "no," the gift (no matter how small) must be declined.

Best Buy's code of ethics allows buyers to accept token gifts if they are "customary in the trade or industry," are unconnected to a purchase, and don't obligate the company or the buyer. Low-value "trinkets" are acceptable, for example. To demonstrate transparency and stimulate dialogue, Best Buy's chief ethics officer even blogs about ethical situations that arise from time to time.⁶

timers from a two-week to a one-month supply, the timer producer will have a significant, immediate increase in demand.

Sometimes, price changes lead to surprising temporary changes in demand. A price increase for a business product may initially cause business customers to buy more of the item because they expect the price to rise further. Similarly, demand for a business product may decrease significantly following a price cut because buyers are waiting for further price reductions. Fluctuations in demand can be substantial in industries in which prices change frequently.

Business Buying Decisions

Business (organizational) buying behavior refers to the purchase behavior of producers, government units, institutions, and resellers. Although several factors that affect consumer buying behavior (discussed in the previous chapter) also influence business buying behavior, a number of factors are unique to the latter. In this section, we first analyze the buying center to learn who participates in business purchase decisions. Then we focus on the stages of the buying decision process and the factors that affect it.

THE BUYING CENTER

Relatively few business purchase decisions are made by just one person; often they are made through a buying center. The **buying center** is the group of people within the organization who make business purchase decisions. They include users, influencers, buyers, deciders, and gatekeepers.¹⁵ One person may perform several roles. These participants share some goals and risks associated with their decisions.

Users are the organizational members who actually use the product being acquired. They frequently initiate the purchase process and/or generate purchase specifications. After the purchase, they evaluate product performance relative to the specifications.

Influencers are often technical personnel, such as engineers, who help develop the specifications and evaluate alternative products. Technical personnel are especially important influencers when the products being considered involve new, advanced technology.

Buyers select suppliers and negotiate terms of purchase. They may also become involved in developing specifications. Buyers are sometimes called purchasing agents or purchasing managers. Their choices of vendors and products, especially for new-task purchases, are heavily influenced by people occupying other roles in the buying center. For straight rebuy purchases, the buyer plays a major role in vendor selection and negotiations.

Deciders actually choose the products. Although buyers may be deciders, it is not unusual for different people to occupy these roles. For routinely purchased items, buyers are commonly deciders. However, a buyer may not be authorized to make purchases that exceed a certain dollar limit, in which case higher-level management personnel are deciders.

Finally, *gatekeepers*, such as secretaries and technical personnel, control the flow of information to and among people who occupy other roles in the buying center. Buyers who deal

business (organizational) buying behavior

The purchase behavior of producers, government units, institutions, and resellers

buying center

The people within an organization who make business purchase decisions

directly with vendors also may be gatekeepers because they can control information flows. The flow of information from a supplier's sales representatives to users and influencers is often controlled by personnel in the purchasing department.

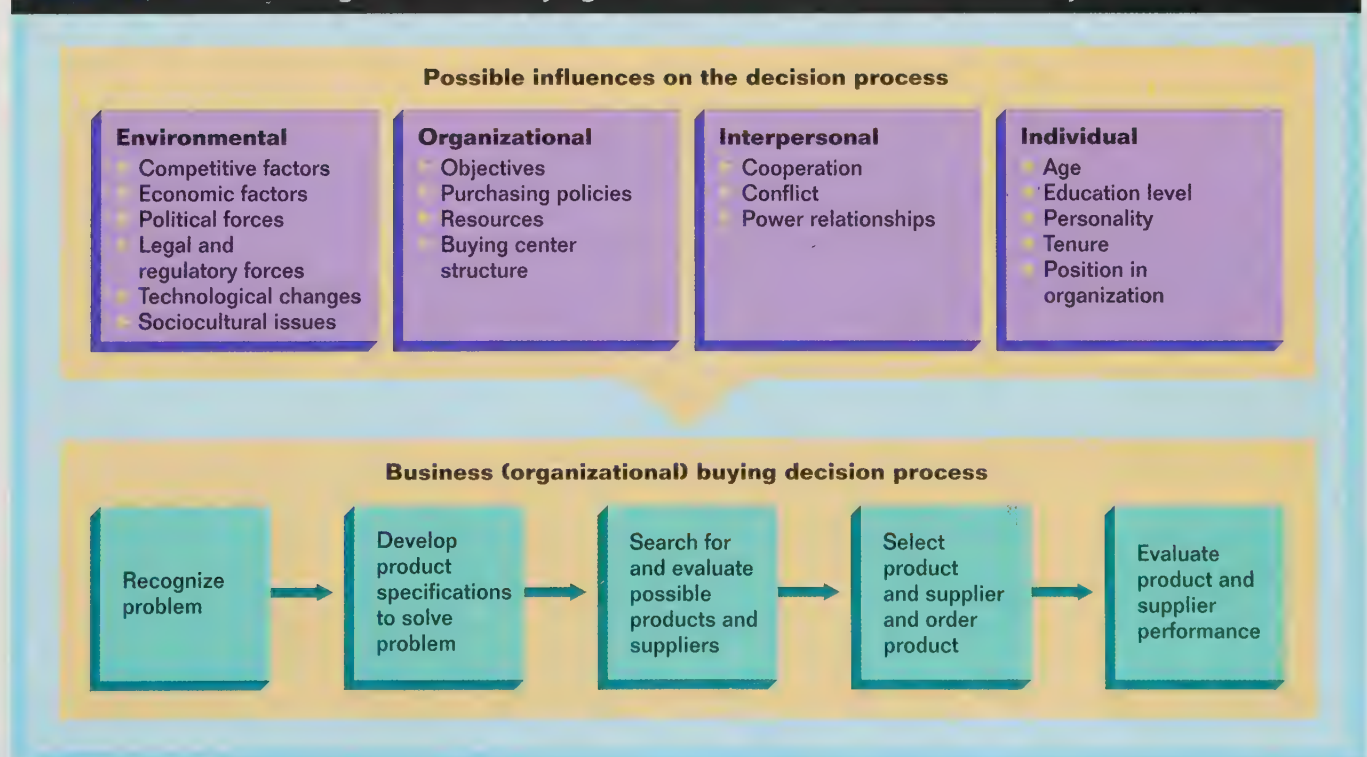
The number and structure of an organization's buying centers are affected by the organization's size and market position, the volume and types of products being purchased, and the firm's overall managerial philosophy regarding exactly who should be involved in purchase decisions. The size of a buying center is influenced by the stage of the buying decision process and by the type of purchase (new task, straight rebuy, or modified rebuy). The size of the buying center likely would be larger for a new-task purchase than for a straight rebuy. Varying goals among members of a buying center can have both positive and negative effects on the purchasing process.

A marketer attempting to sell to a business customer should determine who is in the buying center, the types of decisions each individual makes, and which individuals are most influential in the decision process. Because in some instances many people make up the buying center, marketers cannot feasibly contact all participants. Instead, they must be certain to contact a few of the most influential.

STAGES OF THE BUSINESS BUYING DECISION PROCESS

Like consumers, businesses follow a buying decision process. This process is summarized in the lower portion of Figure 7.2. In the first stage, one or more individuals recognize that a problem or need exists. Problem recognition may arise under a variety of circumstances—for instance, when machines malfunction or a firm modifies an existing product or introduces a new one. Individuals in the buying center, such as users, influencers, or buyers, may be

FIGURE 7.2 Business (Organizational) Buying Decision Process and Factors That May Influence It



Typical Printer

Kyocera Printer

Afraid to look at what your printers really cost? Make the wise choice.

ECO-nomical. ECO-logical. ECOSYS Printers from Kyocera.

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Visit our TCO Tracker at www.kyoceramita.com. Calculate your cost today. Save tomorrow.

KYOCERA

© Kyocera Mita America, Inc.

Problem Recognition

This Kyocera advertisement is attempting to stimulate problem recognition among business customers.

involved in problem recognition, but it may be stimulated by external sources, such as sales representatives or advertisements.

The second stage of the process, development of product specifications, requires that buying center participants assess the problem or need and determine what is necessary to resolve or satisfy it. During this stage, users and influencers, such as engineers, often provide information and advice for developing product specifications. By assessing and describing needs, the organization should be able to establish product specifications.

Searching for and evaluating potential products and suppliers is the third stage in the decision process. Search activities may involve looking in company files and trade directories; contacting suppliers for information; soliciting proposals from known vendors; and examining websites, catalogs, and trade publications. To facilitate a vendor search, some organizations, such as Walmart, advertise their desire to build partnerships with specific types of vendors, such as those owned by women or by minorities. During this stage, some organizations engage in **value analysis**, an evaluation of each component of a potential purchase. Value analysis examines quality, design, materials, and possibly item reduction or deletion to acquire the product in the most cost-effective way. Some vendors may be deemed unacceptable because they are not large enough to supply needed quantities; others may be excluded because of poor delivery and service records. Sometimes the product is not available from any existing vendor and

the buyer must find a company known for its innovation, such as 3M, to design and make it. Products are evaluated to make sure they meet or exceed product specifications developed in the second stage. Usually suppliers are judged according to multiple criteria. A number of firms employ **vendor analysis**, a formal, systematic evaluation of current and potential vendors, focusing on such characteristics as price, product quality, delivery service, product availability, and overall reliability.

Results of deliberations and assessments in the third stage are used during the fourth stage to select the product to be purchased and the supplier from which to buy it. In some cases, the buyer selects and uses several suppliers, a process known as **multiple sourcing**. At times, only one supplier is selected, a situation called **sole sourcing**. Firms with federal government contracts are required to have several sources for an item. Sole sourcing has traditionally been discouraged except when a product is available from only one company. Sole sourcing is much more common today, however, partly because such an arrangement means better communications between buyer and supplier, stability and higher profits for suppliers, and often lower prices for buyers. However, many organizations still prefer multiple sourcing because this approach lessens the possibility of disruption caused by strikes, shortages, or bankruptcies. The actual product is ordered in this fourth stage, and specific details regarding terms, credit arrangements, delivery dates and methods, and technical assistance are finalized.

During the fifth stage, the product's performance is evaluated by comparing it with specifications. Sometimes the product meets the specifications, but its performance fails to adequately solve the problem or satisfy the need recognized in the first stage. In that case, product specifications must be adjusted. The supplier's performance is also evaluated during

value analysis

An evaluation of each component of a potential purchase

vendor analysis

A formal, systematic evaluation of current and potential vendors

multiple sourcing

An organization's decision to use several suppliers

sole sourcing

An organization's decision to use only one supplier

Green Marketing



Go Green—Pass It Along

Just as many consumers are concerned about the environmental impact of the goods and services they buy, more companies are checking that suppliers have the credentials to do business in an eco-friendly manner. In fact, IBM and a growing number of business buyers are even insisting that suppliers of suppliers have the right green credentials in place.

In 1998, IBM asked its suppliers to consider complying with international green operating standards. By 2004, it had drafted its own environmental guidelines for suppliers.

Today, IBM requires its 28,000 primary suppliers to take four steps: (1) measure their environmental impacts, (2) set specific goals for improvement, (3) publicly announce their environmental results, and (4) “cascade” these green requirements to their main suppliers. Although some companies may find these requirements challenging, IBM believes that establishing green credentials is a smart and profitable business decision. “Our goal is not to punish people, but to have them succeed,” says an IBM official.^d

this stage. If supplier performance is inadequate, the business purchaser seeks corrective action from the supplier or searches for a new one. Results of the evaluation become feedback for the other stages in future business purchase decisions.

This business buying decision process is used in its entirety primarily for new-task purchases. Several stages, but not necessarily all, are used for modified rebuy and straight rebuy situations.

INFLUENCES ON THE BUSINESS BUYING DECISION PROCESS

Figure 7.2 also lists four major categories of factors that influence business buying decisions: environmental, organizational, interpersonal, and individual.

Environmental factors include competitive and economic factors, political forces, legal and regulatory forces, technological changes, and sociocultural issues. These factors generate considerable uncertainty for an organization, which can make individuals in the buying center apprehensive about certain types of purchases. Changes in one or more environmental forces can create new purchasing opportunities and threats. For example, changes in competition and technology can make buying decisions difficult for products such as software, computers, and telecommunications equipment. On the other hand, many business marketers believe the Internet can reduce their customer service costs and allow firms to improve relationships with business customers.¹⁶

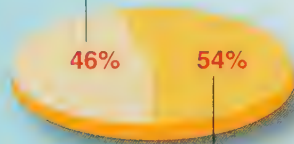
Organizational factors that influence the buying decision process include the company's objectives, purchasing policies, and resources, as well as the size and composition of its buying center. An organization may have certain buying policies to which buying center participants must conform. For instance, a firm's policies may mandate unusually long- or short-term contracts, perhaps longer or shorter than most sellers desire. An organization's financial resources may require special credit arrangements. Any of these conditions could affect purchase decisions.

Interpersonal factors are the relationships among people in the buying center. Trust among all members of collaborative partnerships is crucial, particularly in purchases

SNAPSHOT

Business Markets Can Help Their Small-Business Customers during Tough Economic Times

During the recession, I took actions like having enough cash and reducing staff benefits.



My customers remained loyal during the recession.



Source: Huntington Bank survey of 200 small-business owners.

involving customized products.¹⁷ The use of power and the level of conflict among buying center participants influence business buying decisions. Certain individuals in the buying center may be better communicators and more persuasive than others. Often these interpersonal dynamics are hidden, making them difficult for marketers to assess.

Individual factors are personal characteristics of participants in the buying center, such as age, education level, personality, and tenure and position in the organization. Consider a 55-year-old manager who has been in the organization for 25 years. This manager may affect decisions made by the buying center differently than a 30-year-old person employed only two years. How influential these factors are depends on the buying situation; the type of product being purchased; and whether the purchase is new-task, modified rebuy, or straight rebuy.

Negotiating styles of people vary within an organization and from one organization to another. To be effective, marketers must know customers well enough to be aware of these individual factors and their potential effects on purchase decisions.

Industrial Classification Systems

Marketers have access to a considerable amount of information about potential business customers, since much of this information is available through government and industry publications and websites. Marketers use this information to identify potential business customers and to estimate their purchase potential.

Much information about business customers is based on industrial classification systems. In the United States, marketers traditionally have relied on the *Standard Industrial Classification (SIC) system*, which the federal government developed to classify selected economic characteristics of industrial, commercial, financial, and service organizations. However, the SIC system has been replaced by a new industry classification system called the **North American Industry Classification System (NAICS)**. NAICS is a single industry classification system used by the United States, Canada, and Mexico to generate comparable statistics among the three partners of the North American Free Trade Agreement (NAFTA). The NAICS classification is based on the types of production activities performed. NAICS is similar to the International Standard Industrial Classification (ISIC) system used in Europe and many other parts of the world. Whereas the SIC system divided industrial activity into 10 divisions, NAICS divides it into 20 sectors. NAICS contains 1,170 industry classifications, compared with 1,004 in the SIC system. NAICS is more comprehensive and up-to-date, and it provides considerably more information about service industries and high-tech products.¹⁸ Table 7.2 shows some NAICS codes for Apple Inc. and AT&T Inc. Over the next few years, all three NAFTA countries will convert from previously used industrial classification systems to NAICS.

Industrial classification systems are ready-made tools that enable marketers to categorize organizations into groups based mainly on the types of goods and services provided. Although an industrial classification system is a vehicle for segmentation, it is most appropriately used in conjunction with other types of data to determine exactly how many and which customers a marketer can reach.

North American Industry Classification System (NAICS)

An industry classification system that generates comparable statistics among the United States, Canada, and Mexico

TABLE 7.2 Examples of NAICS Classification

NAICS Hierarchy for AT&T Inc.		NAICS Hierarchy for Apple Inc.	
Sector 51	Information	Sector 31–33	Manufacturing
Subsector 517	Telecommunications	Subsector 334	Computer and Electronic Manufacturing
Industry Group 5171	Wired Telecommunication Carriers	Industry Group 3341	Computer and Peripheral Equipment Manufacturing
Industry Group 5172	Wireless Telecommunications Carriers		
Industry 51711	Wired Telecommunication Carriers	Industry 33411	Computer and Peripheral Equipment Manufacturing
Industry 51721	Wireless Telecommunications Carriers		
Industry 517110	Wired Telecommunication Carriers	U.S. Industry 334111	Electronic Computer Manufacturing
Industry 517210	Wireless Telecommunications Carriers		

Source: NAICS Association, www.census.gov/eos/www/naics/index.html (accessed April 6, 2011).

A marketer can take several approaches to determine the identities and locations of organizations in specific groups. One approach is to use state directories or commercial industrial directories, such as *Standard & Poor's Register* and Dun & Bradstreet's *Million Dollar Directory*. These sources contain such information about a firm as its name, industrial classification, address, phone number, and annual sales. By referring to one or more of these sources, marketers isolate business customers with industrial classification numbers, determine their locations, and develop lists of potential customers by desired geographic area. A more expedient, although more expensive, approach is to use a commercial data service. Dun & Bradstreet, for example, can provide a list of organizations that fall into a particular industrial classification group. For each company on the list, Dun & Bradstreet gives the name, location, sales volume, number of employees, type of products handled, names of chief executives, and other pertinent information. Either method can effectively identify and locate a group of potential customers. However, a marketer probably cannot pursue all organizations on the list. Because some companies have greater purchasing potential than others, marketers must determine which customer or customer group to pursue.

To estimate the purchase potential of business customers or groups of customers, a marketer must find a relationship between the size of potential customers' purchases and a variable available in industrial classification data, such as the number of employees. For example, a paint manufacturer might attempt to determine the average number of gallons purchased by a specific type of potential customer relative to the number of employees. A marketer with no previous experience in this market segment will probably have to survey a random sample of potential customers to establish a relationship between purchase sizes and numbers

of employees. Once this relationship is established, it can be applied to customer groups to estimate their potential purchases. After deriving these estimates, the marketer is in a position to select the customer groups with the most sales and profit potential.

Despite their usefulness, industrial classification data pose several problems. First, a few industries do not have specific designations. Second, because a transfer of products from one establishment to another is counted as a part of total shipments, double counting may occur when products are shipped between two establishments within the same firm. Third, because the Census Bureau is prohibited from providing data that identify specific business organizations, some data, such as value of total shipments, may be understated. Finally, because government agencies provide industrial classification data, a significant lag usually exists between data-collection time and the time the information is released.

CHAPTER REVIEW

1 Distinguish among the various types of business markets.

Business (B2B) markets consist of individuals, organizations, and groups that purchase a specific kind of product for resale, direct use in producing other products, or use in day-to-day operations. Producer markets include those individuals and business organizations that purchase products for the purpose of making a profit by using them to produce other products or as part of their operations. Intermediaries that buy finished products and resell them to make a profit are classified as reseller markets. Government markets consist of federal, state, county, and local governments, which spend billions of dollars annually for goods and services to support internal operations and to provide citizens with needed services. Organizations with charitable, educational, community, or other non-profit goals constitute institutional markets.

2 Identify the major characteristics of business customers and transactions.

Transactions that involve business customers differ from consumer transactions in several ways. Such transactions tend to be larger, and negotiations occur less frequently, though they are often lengthy. They frequently involve more than one person or department in the purchasing organization. They may also involve reciprocity, an arrangement in which two organizations agree to buy from each other. Business customers are usually better informed than ultimate consumers and are more

likely to seek information about a product's features and technical specifications.

When purchasing products, business customers are particularly concerned about quality, service, price, and supplier relationships. Quality is important because it directly affects the quality of products the buyer's firm produces. To achieve an exact level of quality, organizations often buy products on the basis of a set of expressed characteristics, called specifications. Because services have such a direct influence on a firm's costs, sales, and profits, factors such as market information, on-time delivery, and availability of parts are crucial to a business buyer. Although business customers do not depend solely on price to decide which products to buy, price is of primary concern because it directly influences profitability.

Business buyers use several purchasing methods, including description, inspection, sampling, and negotiation. Most organizational purchases are new-task, straight rebuy, or modified rebuy. In a new-task purchase, an organization makes an initial purchase of items to be used to perform new jobs or solve new problems. A straight rebuy purchase occurs when a buyer purchases the same products routinely under approximately the same terms of sale. In a modified rebuy purchase, a new-task purchase is changed the second or third time it is ordered or requirements associated with a straight rebuy purchase are modified.

3 Understand several attributes of demand for business products.

Industrial demand differs from consumer demand along several dimensions. Industrial demand derives from demand for consumer products. At the industry level, industrial demand is inelastic. If an industrial item's price changes, product demand will not change as much proportionally. Some industrial products are subject to joint demand, which occurs when two or more items are used in combination to make a product. Finally, because organizational demand derives from consumer demand, the demand for business products can fluctuate widely.

4 Become familiar with the major components of a buying center.

Business (or organizational) buying behavior refers to the purchase behavior of producers, resellers, government units, and institutions. Business purchase decisions are made through a buying center, the group of people involved in making such purchase decisions. Users are those in the organization who actually use the product. Influencers help develop specifications and evaluate alternative products for possible use. Buyers select suppliers and negotiate purchase terms. Deciders choose the products. Gatekeepers control the flow of information to and among individuals occupying other roles in the buying center.

5 Understand the stages of the business buying decision process and the factors that affect this process.

The stages of the business buying decision process are problem recognition, development of product specifications to solve problems, search for and evaluation of products and suppliers, selection and ordering of the most appropriate product,

and evaluation of the product's and supplier's performance.

Four categories of factors influence business buying decisions: environmental, organizational, interpersonal, and individual. Environmental factors include competitive forces, economic conditions, political forces, laws and regulations, technological changes, and sociocultural factors. Business factors include the company's objectives, purchasing policies, and resources, as well as the size and composition of its buying center. Interpersonal factors are the relationships among people in the buying center. Individual factors are personal characteristics of members of the buying center, such as age, education level, personality, and tenure and position in the organization.

6 Describe industrial classification systems, and explain how they can be used to identify and analyze business markets.

Business marketers have a considerable amount of information available for use in planning marketing strategies. Much of this information is based on an industrial classification system, which categorizes businesses into major industry groups, industry subgroups, and detailed industry categories. An industrial classification system—like the North American Industry Classification System (NAICS) used by the United States, Canada, and Mexico—provides marketers with information needed to identify business customer groups. It can best be used for this purpose in conjunction with other information. After identifying target industries, a marketer can obtain the names and locations of potential customers by using government and commercial data sources. Marketers then must estimate potential purchases of business customers by finding a relationship between a potential customer's purchases and a variable available in industrial classification data.

ONLINE RESOURCES

Please visit the student website at www.cengagelearning.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

producer markets 179	modified rebuy purchase 186	value analysis 190
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ISSUES FOR DISCUSSION AND REVIEW

1. Identify, describe, and give examples of the four major types of business markets.
2. Why might business customers generally be considered more rational in their purchasing behavior than ultimate consumers?
3. What are the primary concerns of business customers?
4. List several characteristics that differentiate transactions involving business customers from consumer transactions.
5. What are the commonly used methods of business buying?
6. Why do buyers involved in straight rebuy purchases require less information than those making new-task purchases?
7. How does demand for business products differ from consumer demand?
8. What are the major components of a firm's buying center?
9. Identify the stages of the business buying decision process. How is this decision process used when making straight rebuys?
10. How do environmental, business, interpersonal, and individual factors affect business purchases?
11. What function does an industrial classification system help marketers perform?

MARKETING APPLICATIONS

1. Identify organizations in your area that fit each business market category: producer, reseller, government, and institutional. Explain your classifications.
2. Indicate the method of buying (description, inspection, sampling, or negotiation) an organization would be most likely to use when purchasing each of the following items. Defend your selections.
 - a. A building for the home office of a light bulb manufacturer
 - b. Wool for a clothing manufacturer
 - c. An Alaskan cruise for a company retreat, assuming a regular travel agency is used
 - d. One-inch nails for a building contractor
3. Purchases by businesses may be described as new-task, modified rebuy, or straight rebuy. Categorize the following purchase decisions and explain your choices.
 - a. Bob has purchased toothpicks from Smith Restaurant Supply for 25 years and recently placed an order for yellow toothpicks rather than the usual white ones.
 - b. Jill's investment company has been purchasing envelopes from AAA Office Supply for a year and now needs to purchase boxes to mail year-end portfolio summaries to clients. Jill calls AAA to purchase these boxes.

- c. Reliance Insurance has been supplying its salespeople with small personal computers to assist in their sales efforts. The company recently agreed to begin supplying them with faster, more sophisticated computers.
4. Identifying qualified customers is important to the survival of any organization. NAICS provides helpful information about many different businesses. Find the NAICS manual at the library or online at www.naics.com and identify the NAICS code for the following items.
 - a. Chocolate candy bars
 - b. Automobile tires
 - c. Men's running shoes

ONLINE EXERCISE

5. Boeing is the world's leading aerospace corporation and largest manufacturer of commercial and military aircraft. Visit the company's website at www.boeing.com.
 - a. At what types of business markets are Boeing's products targeted?
 - b. How does Boeing address some of the concerns of business customers?
 - c. What environmental factors do you think affect demand for Boeing products?

DEVELOPING YOUR MARKETING PLAN

When developing a marketing strategy for business customers, it is essential to understand the process the business goes through when making a buying decision. Knowledge of business buying behavior is important when developing several aspects of the marketing plan. To assist you in relating the information in this chapter to the creation of a marketing plan for business customers, consider the following issues:

1. What are the primary concerns of business customers? Could any of these concerns be addressed with strengths of your company?
2. Determine the type of business purchase your customer will likely be using when purchasing your

product. How would this impact the level of information required by the business when moving through the buying decision process?

3. Discuss the different types of demand that the business customer will experience when purchasing your product.

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

NUMI TEA POURS IT ON WITH RESELLERS

Tea, one of the oldest beverages in the world, is a growth industry these days. Served hot or cold, brewed in bags or using loose leaves, tea accounts for \$10 billion in U.S. sales every year. Although the business is dominated by corporate giants such as Lipton, companies with unique tea products can compete quite effectively by connecting with key resellers.

Numi Tea of Oakland, California, is riding the wave of tea popularity in just this way. Founded in 1999 by the brother-and-sister team Ahmed and Reem Rahim, Numi markets only organic full-leaf teas. Many of its teas are Fair Trade certified, which means the growers in India, China, and South Africa are paid more than the usual market rate for their leaves. For environmental sustainability, Numi's gift boxes and store displays are made from fast-growing bamboo.

Numi's product offerings include tea bags, tea leaf mixtures, herbal teas, and accessories such as teapots and filters. One of its most unusual products is flowering tea. When a hand-sewn bundle of these black, white, or green tea leaves is dropped into boiling water, it releases its fragrant flavor as it expands into a pretty blossom shape. In addition, Numi runs a Tea Garden in downtown Oakland, furnished with eco-friendly materials and featuring Numi's organic teas plus an assortment of cheeses, fruits, and bakery items.

How did Numi bring its sales to a multi-million-dollar boil so quickly? From the start, the Rahims recognized that their company's growth depended on building long-term relationships with good wholesalers, retailers, and restaurants. Numi needed to educate resellers (and help them educate their customers) about the advantages of Numi's tea products. To do this, it created training materials for reseller employees and a series of informational tea cards for resellers to give to customers. It also developed colorful product highlight cards and displays for store shelves and restaurant tables, plus eye-catching posters and banners showcasing the brand.

Service is another important element of Numi's marketing strategy. The company has a brand ambassador who visits restaurants, wholesalers, and retailers to introduce new products

and promotions, discuss point-of-purchase displays, conduct product demonstrations, and identify new sales opportunities. It also sends out newsletters and e-mails with product and promotion updates.

Rather than using a "one-size-fits-all" approach, Numi adapts its service to the differing needs of its various resellers. For instance, to help upscale restaurants make a good impression on their patrons, Numi provides handsome bamboo tea chests and boxes in which to present tea choices at table-side. Numi also makes glossy presentation folders in which luxury hotels can leave Numi tea bags in guest rooms as a special amenity. In addition, it helps its hotel and restaurant customers create custom menus and inserts that describe Numi's special teas in more detail.

For the convenience of its resellers, Numi offers a number of ordering options. Depending on the size of their order and where they are located, retailers can buy through a local wholesaler, Numi's website, or the wholesaler WorldPantry.com. To make it easy for consumers to find Numi retailers in the United States and Canada, the company's website includes a store locator function.

Careful attention to reseller relationships has helped Numi increase annual revenues beyond \$13 million. No wonder it was recently named one of the fast-growing inner-city companies in America. More growth is ahead as the company expands distribution by intensifying its marketing to gourmet grocery stores, quality restaurants, and upscale hotels across North America.¹⁹

QUESTIONS FOR DISCUSSION

1. What important concerns might retailers and wholesalers have when making decisions about buying from Numi?
2. During vendor analysis, how much weight do you think a buyer for a high-end restaurant is likely to give Numi's service capabilities? Why?
3. How might local wholesalers react to the policy of allowing retailers to order directly from Numi's website?

CHAPTER 8

Reaching Global Markets



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MARKETING INSIGHTS

Coca-Cola Views Africa as New Frontier for Growth

With sales flat in many developed markets, Coca-Cola views Africa as the next land of promise. Although Coke has been present in Africa since 1929, war, poverty, lack of roads, and water shortages have kept its per capita consumption low. These obstacles still exist, but with a difference: African consumers are earning more disposable income. By 2014 experts estimate that 106 million households in Africa will be earning at least \$5,000 a year, which, according to research, is the point at which families begin spending half their income on nonfood items. Coca-Cola sees this trend as a major opportunity for growth and plans to invest \$12 billion within the next 10 years to bring Coca-Cola into every region. For those regions without much infrastructure, Coca-Cola products are delivered via handcarts and bicycles.

Organizations like the World Health Organization oppose Coke's expansion plans, saying a product lacking nutritional benefits has no place in impoverished countries. However, Coca-Cola points out the economic opportunities its expansion will provide for Africans. Coke employs 65,000 people in Africa, many of them entrepreneurs in rural areas and a number of them women. Coca-Cola operates a micro-distribution center network to encourage entrepreneurship. Additionally, not all of Coca-Cola's bottling plants in Africa will be for soda; some will be for juice so as to tap into the demand for tropical fruit beverages. Despite the many obstacles that Coca-Cola will face, success in Africa could propel the company's signature product back into the growth stage.¹

OBJECTIVES:

- 1 Understand the nature of global marketing strategy.
- 2 Analyze the environmental forces that affect international marketing efforts.
- 3 Understand several important international trade agreements.
- 4 Identify methods of international market entry.
- 5 Examine various forms of global organizational structures.
- 6 Examine the use of the marketing mix internationally.

Technological advances and rapidly changing political and economic conditions are making it easier than ever for companies to market their products overseas as well as at home. With most of the world's population and two-thirds of total purchasing power outside the United States, international markets represent tremendous opportunities for growth. Accessing these markets can promote innovation, while intensifying global competition can spur companies to market better, less expensive products. For instance, MTV provides a potential viewing audience of more than 1.2 billion people through MTV's global network of 65 channels, reaching 641 million households around the world. In terms of the interactive community and audience, MTV offers more than 200 digital media entities throughout the world.²

In deference to the increasingly global nature of marketing, we devote this chapter to the unique features of global markets and international marketing. We begin by considering the nature of global marketing strategy and the environmental forces that create opportunities and threats for international marketers. Next, we consider several regional trade alliances, markets, and agreements. Then we examine the modes of entry into international marketing and companies' degree of involvement in it, as well as some of the structures that can be used to organize multinational enterprises. Finally, we examine how firms may alter their marketing mixes when engaging in international marketing efforts. All of these factors must be considered in any marketing plan that includes an international component.

The Nature of Global Marketing Strategy

international marketing

Developing and performing marketing activities across national boundaries

International marketing involves developing and performing marketing activities across national boundaries. For instance, Walmart has more than 2 million employees and operates more than 8,000 retail outlets in 15 countries, including the United States, Brazil, and China; Starbucks serves tens of millions of customers a week at more than 16,000 shops in 50 countries.³ American icon Jack Daniels now sells more cases of whiskey abroad than it does in its own backyard.⁴ General Motors sells more cars in China than in the United States.

Firms are finding that international markets provide tremendous opportunities for growth. To encourage international growth, many countries offer significant practical assistance and valuable benchmarking research that will help their domestic firms become more competitive globally. One example is the benchmarking of best international practices that is conducted by the network of CIBERs—Centers for International Business Education and Research—at leading business schools in the United States. These CIBERs are funded by the U.S. government to help U.S. firms become more competitive globally.⁵ A major element of the assistance that these governmental organizations can provide for firms (especially small and medium-sized firms) is knowledge of the internationalization process of firms.

Traditionally, most companies—such as McDonald's and KFC—have entered the global marketplace incrementally as they gained knowledge about various markets and



Courtesy of Suzanna Bambridge

International Marketing

As part of an extensive international marketing program, McDonald's releases Spanish-language advertisements.

opportunities. Beginning in the 1990s, however, some firms—such as eBay, Google, and Logitech—were founded with the knowledge and resources to expedite their commitment and investment in the global marketplace. These “born globals”—typically small technology-based firms earning as much as 70 percent of their sales outside the domestic home market—export their products almost immediately after being established in market niches in which they compete with larger, more established firms.⁶ Whether a firm adopts the traditional approach, the born global approach, or an approach that merges attributes of both approaches to market products and services, international marketing strategy is a critical element of a firm’s global operations. Today, global competition in most industries is intense and becoming increasingly fierce with the addition of newly emerging markets and firms.

Environmental Forces in Global Markets

Firms that enter international markets often find that they must make significant adjustments in their marketing strategies. The environmental forces that affect foreign markets may differ dramatically from those that affect domestic markets. It took McDonald’s 14 years of intense negotiations before it was able to open its restaurants in Russia, but the past 20 years of operating restaurants in 60 Russian cities has been an enormous success. The first location in Russia was the Pushkin Square location, which remains the single busiest McDonald’s in the world. When McDonald’s entered Russia, the Soviet Union was falling apart, the economy was failing, and political tensions were high; despite all of this, McDonald’s Russian restaurants were successful.⁷ Thus, a successful international marketing strategy requires a careful environmental analysis. Conducting research to understand the needs and desires of international customers is crucial to global marketing success. Many firms have demonstrated that such efforts can generate tremendous financial rewards, increase market share, and heighten customer awareness of their products around the world. In this section, we explore how differences in the sociocultural; economic; political, legal, and regulatory; social and ethical; competitive; and technological forces in other countries can profoundly affect marketing activities.

SOCIOCULTURAL FORCES

Cultural and social differences among nations can have significant effects on marketing activities. Because marketing activities are primarily social in purpose, they are influenced by beliefs and values regarding family, religion, education, health, and recreation. In terms of families, the world population reached the 7 billion mark in 2011–2012, with half residing in countries where the fertility rate is at or below 2.1. Because of these lower fertility rates, the next wave of major population growth will likely take longer and be driven by developing countries.⁸ By identifying such major sociocultural deviations among countries, marketers lay the groundwork for an effective adaptation of marketing strategy. In India, for instance, three-quarters of McDonald’s menu was created to appeal to Indian tastes, including many vegetarian



Marketing Debate

Graphic Images on Cigarette Labels to Create Fear

ISSUE: *Should graphic and potentially unfair images be placed on smoking labels if they work to reduce smoking?*

The United States is taking its cue from other countries in its redesign of the cigarette label. Countries such as Canada and Brazil require a portion of cigarette packages to be covered with graphic pictorial warnings. Brazil has some of the most gruesome, including photos of a gangrenous foot and a fetus in an ashtray. Such images are meant to depict what can happen to smokers and those around them. Supporters claim that these countries have seen smoking rates decrease. However, cigarette companies claim that the depictions go beyond what is accurate. The Association of National Advertisers argues that these requirements may violate the first amendment. Should these pictures be used if they deter people from smoking?⁹

items, and it does not include pork or beef products at all. In Italy, where the quality of ingredients is very important, McDonald's created the McItaly burger. It features all locally grown ingredients such as Asiago cheese and artichokes. In spite of protests, the country's agricultural minister endorsed the concept because it will mean millions in increased revenues for struggling Italian farmers.⁹

Local preferences, tastes, and idioms can all prove complicated for international marketers. Although football is a popular sport in the United States and a major opportunity for many television advertisers, soccer is the most popular televised sport in Europe and Latin America. And, of course, marketing communications often must be translated into other languages. Sometimes, the true meaning of translated messages can be misinterpreted or lost. Consider some translations that went awry in foreign markets: KFC's long-running slogan "Finger lickin' good" was translated into Spanish as "Eat your fingers off," and Coors' "Turn it loose" campaign was translated into Spanish as "Drink Coors and get diarrhea."¹⁰

It can be difficult to transfer marketing symbols, trademarks, logos, and even products to international markets, especially if these are associated with objects that have profound religious or cultural significance in a particular culture. Gerber began marketing its baby food products in Africa and made minimal changes to the traditional packaging, showing the Gerber baby on the label. When baby food sales fell way below expectations, the company did some investigation and learned that because the literacy rate is low in many parts of Africa, it is customary to put a picture of what is in the container on the package. Many consumers were not buying the product because they thought Gerber was selling baby meat. Cultural differences may also affect marketing negotiations and decision-making behavior. Although U.S. and Taiwanese sales agents are equally sensitive to customer interests, research suggests that the Taiwanese are more sensitive to the interests of their companies and competitors and less attuned to the interests of colleagues. Identifying such differences in work-related values of employees across different nationalities helps companies design more effective sales management practices. Cultural differences in the emphasis placed on personal relationships, status, and decision-making styles have been known to complicate dealings between Americans and businesspeople from other countries. In many parts of Asia, a gift may be considered a necessary introduction before negotiation, whereas in the United States or Canada, a gift may be misconstrued as an illegal bribe.

Buyers' perceptions of other countries can influence product adoption and use. Multiple research studies have found that consumer preferences for products depend on both the country of origin and the product category of competing products.¹¹ When people are unfamiliar with products from another country, their perceptions of the country as a whole may affect their attitude toward the product and influence whether they will buy it. If a country has a reputation for producing quality products and therefore has a positive image in consumers' minds, marketers of products from that country will want to make the country of origin well known. For example, a generally favorable image of Western computer technology has fueled sales of U.S.-made Dell, Apple, and Microsoft computers and software in Japan. On the other hand, marketers may want to dissociate themselves from a particular country in order to build a brand's reputation as truly global or because a country does not have a good reputation for quality. Because China has had issues with product quality in the past, a Chinese company that purchased Volvo is keeping Volvo positioned as a Swedish brand. The extent to which a product's brand image and country of origin influence purchases is subject to considerable variation based on national culture characteristics.

When products are introduced from one nation into another, acceptance is far more likely if similarities exist between the two cultures. In fact, many similar cultural characteristics exist across countries. For international marketers, cultural differences have implications for product development, advertising, packaging, and pricing. When the

original Mini automobile was introduced in England in 1959, its dimensions were 10 feet in length, 4 feet in width, and 4 feet in height. Although BMW was reluctant to export the car to the United States, they gave it a try in 2002 and were surprised that Americans who drove SUVs, trucks, and minivans were very interested in the Mini. The United States now represents the largest market for Minis. In light of its surprising success and its desire to grow market share for the Mini in the United States, BMW introduced the Countryman, a larger version of the Mini with comparable handling that will appeal to a potentially broader American audience.¹²

ECONOMIC FORCES

Global marketers need to understand the international trade system, particularly the economic stability of individual nations, as well as trade barriers that may stifle marketing efforts. Economic differences among nations—differences in standards of living, credit, buying power, income distribution, national resources, exchange rates, and the like—dictate many of the adjustments firms must make in marketing internationally.

Instability is one of the guaranteed constants in the global business environment. The United States and the European Union are more stable economically than many other regions of the world. However, even these economies have downturns in regular cycles, one of which occurred in 2008–2009 during the worst global recession since the 1930s. A number of other countries, including Korea, Russia, Singapore, and Thailand, have all experienced economic problems such as depressions, high unemployment, corporate bankruptcies, instabilities in currency markets, trade imbalances, and financial systems that need major reforms. For instance, the rising power of raw materials could serve to increase inflation in developing countries where demand is growing.¹³ The constantly fluctuating conditions in different economies require global marketers to carefully monitor the global environment and make changes quickly. Even more stable developing countries, such as Mexico and Brazil, tend to have greater fluctuations in their business cycles than the United States does. Economic instability can disrupt the markets for U.S. products in places that otherwise might be excellent marketing opportunities. On the other hand, competition from the sustained economic growth of countries such as China and India can disrupt markets for U.S. products.

The value of the dollar, euro, and yen has a major impact on the prices of products in many countries. An important economic factor in the global business environment is currency valuation. Many countries have adopted a floating exchange rate, which allows the currencies of those countries to fluctuate, or float, according to the foreign exchange market. China is constantly being criticized for undervaluing its currency, or valuing its currency below the market value. This gives it an advantage in selling exports, because the Chinese yuan has a lower value than other nations' currencies. It also decreases demand for manufacturers and exporters from other countries.¹⁴ In 2010, China allowed for the yuan to rise against the U.S. dollar, but most economists believe the change had a negligible impact.¹⁵ Latin American countries, Brazil, China, and several economists have also accused the U.S. government of purposely devaluing its currency by issuing more money (which subsequently weakens the dollar). Although the United States defended its practices



Cultural Differences.

The Mental Health Foundation in the United Kingdom provides resources to help manage stress.

as legitimate, the rapid influx of U.S. dollars into the economy could spark a disruption in international currencies. Because many countries float their exchange rates around the dollar, too much or too little U.S. currency in the economy could create inflationary effects or harm exports.¹⁶

In terms of the value of all products produced by a nation, the United States has the largest gross domestic product in the world, more than \$14 trillion in 2010.¹⁷ **Gross domestic product (GDP)** is an overall measure of a nation's economic standing; it is the market value of a nation's total output of goods and services for a given period. However, it does not take into account the concept of GDP in relation to population (GDP per capita). The United States has a GDP per capita of \$46,900. Switzerland is roughly 230 times smaller than the United States—a little larger than the state of Maryland—but its population density is six times greater than that of the United States. Although Switzerland's GDP is about one-forty-fifth the size of the United States' GDP, its GDP per capita is only a little lower. Even Canada, which is comparable in size to the United States, has a lower GDP and GDP per capita.¹⁸ Table 8.1 provides a comparative economic analysis of 15 countries, including the United States. Knowledge about per capita income, credit, and the distribution of income provides general insights into market potential.

gross domestic product (GDP)

The market value of a nation's total output of goods and services for a given period; an overall measure of economic standing

TABLE 8.1 Comparative Analysis of Selected Countries*

Country	Population (in Millions)	GDP (US\$ in Billions)	Exports (US\$ in Billions)	Imports (US\$ in Billions)	Internet Users (in Millions)	Cell Phones (in Millions)
Brazil	201.1	2,194	199.7	187.7	75.982	173.959
Canada	33.8	1,335	406.8	406.4	26.960	23.081
China	1,330	9,872	1,506	1,307	389	747
Honduras	7.99	33.77	5.879	8.878	0.73	7.714
India	1,173	4,046	201	327	61.338	670
Japan	126.8	4,338	735.8	636.8	99.182	114.917
Jordan	6.4	33.79	7.333	12.97	1.642	6.014
Kenya	40.05	65.95	5.141	10.4	3.996	19.365
Mexico	112.5	1,560	303	306	31.020	83.528
Russia	139.4	2,229	376.7	237.3	40.853	230.500
South Africa	49.1	527.5	76.860	77.040	4.420	46.436
Switzerland	7.6	326.9	235.2	220.4	6.152	9.255
Turkey	77.8	958.3	117.4	166.3	27.233	62.780
Thailand	67.1	580.3	191.3	156.9	17.483	83.057
United States	310.2	14,720	1,270	1,903	245	286

*2010 estimates

Source: The CIA, *The World Factbook*, www.cia.gov/library/publications/the-world-factbook/rankorder/rankorderguide.html (accessed January 28, 2011).

Opportunities for international trade are not limited to countries with the highest incomes. The countries of Brazil, China, India, and Russia (BRIC) have attracted attention as their economies appear to be rapidly advancing (although certain economic factors have led some to question Russia's inclusion). Other nations are progressing at a much faster rate than they were a few years ago, and these countries—especially in Latin America, Africa, eastern Europe, and the Middle East—have great market potential. Many of these countries are now being classified into two new categories. “Overlooked” countries, including South Africa, Saudi Arabia, and Morocco, are nations whose economic advancement is beginning to rival the BRICs. “Frontier” countries, such as Sri Lanka, Kenya, and Nigeria, are riskier but nonetheless have potential for growth.¹⁹ Consider the market potential for mobile value-added service businesses, which is growing rapidly in rural areas. In India, for example, dominant cellular companies such as Reliance Communications Ltd. and Tata Teleservices are adding services that are useful for farmers, such as using cell phones to control water pumps for crops. These nonvoice cellular services are growing and are estimated to account for 25 percent of revenues in the next five years.²⁰ Marketers must, however, understand the political and legal environments before they can convert buying power of customers in these countries into actual demand for specific products.

POLITICAL, LEGAL, AND REGULATORY FORCES

The political, legal, and regulatory forces of the environment are closely intertwined in the United States. To a large degree, the same is true in many countries internationally. Typically, legislation is enacted, legal decisions are interpreted, and regulatory agencies are operated by elected or appointed officials. A country's legal and regulatory infrastructure is a direct reflection of the political climate in the country. In some countries, this political climate is determined by the people via elections, whereas in other countries leaders are appointed or have assumed leadership based on certain powers. Although laws and regulations have direct effects on a firm's operations in a country, political forces are indirect and often not clearly known in all countries. For example, although China has opened to international investment in recent years, government censorship has blocked certain companies such as Facebook, the world's largest online social media network, from interacting with consumers.²¹ Censorship has been a highly political process since the advent of Communist rule. On the other hand, some countries have political climates that make it easier for international entrepreneurs to start their own businesses. Table 8.2 lists some of the best countries in which to start a business, according to the Small Business Administration.

The political climate in a country or region, political officials in a country, and political officials in charge of trade agreements directly affect the legislation and regulations (or lack thereof). Within industries, elected or appointed officials of influential industry associations also set the tone for the regulatory environment that guides operations in a particular industry. Consider the American Marketing Association, which has one of the largest professional associations for marketers with 30,000 members worldwide in every area of marketing. It has established a statement of

TABLE 8.2 The Best Spots to Start a Business

Rank	Country
1	Denmark
2	Canada
3	United States
4	Sweden
5	New Zealand
6	Ireland
7	Switzerland
8	Norway
9	Iceland
10	Netherlands

Source: Jeff May, “The Best Country to Start a Business ...,” *The Wall Street Journal*, November 15, 2010, p. R4.

import tariff

A duty levied by a nation on goods bought outside its borders and brought into the country

quota

A limit on the amount of goods an importing country will accept for certain product categories in a specific period of time

embargo

A government's suspension of trade in a particular product or with a given country

exchange controls

Government restrictions on the amount of a particular currency that can be bought or sold

balance of trade

The difference in value between a nation's exports and its imports

ethics, called Ethical Norms and Values for³ Marketers, that guide the marketing profession in the United States.²²

A nation's political system, laws, regulatory bodies, special-interest groups, and courts all have a great impact on international marketing. A government's policies toward public and private enterprise, consumers, and foreign firms influence marketing across national boundaries. Some countries have established import barriers, such as tariffs. An **import tariff** is any duty levied by a nation on goods bought outside its borders and brought into the country. Because they raise the prices of foreign goods, tariffs impede free trade between nations. Tariffs are usually designed either to raise revenue for a country or to protect domestic products. In the United States, tariff revenues account for less than 2 percent of total federal revenues, down from about 50 percent of total federal revenues in the early 1900s.²³

Nontariff trade restrictions include quotas and embargoes. A **quota** is a limit on the amount of goods an importing country will accept for certain product categories in a specific period of time. The United States maintains tariff-rate quotas on imported raw cane sugar, refined and specialty sugar, and sugar-containing products. The goal is to allow countries to export specific products to the United States at a relatively low tariff but acknowledges higher tariffs above predetermined quantities.²⁴ An **embargo** is a government's suspension of trade in a particular product or with a given country. Embargoes are generally directed at specific goods or countries and are established for political, health, or religious reasons. An embargo may be used to suspend the purchase of a commodity like oil from a country that is involved in questionable conduct such as human rights violations or terrorism. Products that were created in the United States or by U.S. companies or those containing more than 20 percent of U.S.-manufactured parts cannot be sold to Cuba.²⁵ Laws regarding pricing policies may also serve as trade barriers. For example, the European Union has stronger antitrust laws than the United States. Being found guilty of anticompetitive behavior has cost companies like Intel billions of dollars. Because some companies do not have the resources to comply with more stringent laws, this can act as a barrier to trade.

Exchange controls, government restrictions on the amount of a particular currency that can be bought or sold, may also limit international trade. They can force businesspeople to buy and sell foreign products through a central agency, such as a central bank. On the other hand, to promote international trade, some countries have joined to form free trade zones, multinational economic communities that eliminate tariffs and other trade barriers. Such regional trade alliances are discussed later in the chapter. As mentioned earlier, foreign currency exchange rates also affect the prices marketers can charge in foreign markets. Fluctuations in the international monetary market can change the prices charged across national boundaries on a daily basis. Thus, these fluctuations must be considered in any international marketing strategy.

Countries may limit imports to maintain a favorable balance of trade. The **balance of trade** is the difference in value between a nation's exports and its imports. When a nation exports more products than it imports, a favorable balance of trade exists because money is flowing into the country. The United States has a negative balance of trade for goods and services of more than \$497.8 billion.²⁶ A negative balance of trade is considered harmful because it means U.S. dollars are supporting foreign economies at the expense of U.S. companies and workers. At the same time, U.S. citizens benefit from the assortment of imported products and their typically lower prices.



We can't grow without you. And you. And you. And you.

Your ideas, your talent, your unique perspective. We've got a place for you at Weyerhaeuser, a forest products company with business strengths from forestry to manufacturing. We recognize that the fastest way to grow as a company is to seek out diverse, creative people and provide opportunities to lead. From engineering to sales, from I.T. to operations, you can have a voice in our growth. To learn more, visit us at www.weyerhaeuser.com/careers



Courtesy of Weyerhaeuser Company

Global Diversity

Weyerhaeuser promotes a diverse workforce.

Many nontariff barriers—such as quotas and minimum price levels set on imports, port-of-entry taxes, and stringent health and safety requirements—still make it difficult for U.S. companies to export their products. For instance, the collectivistic nature of Japanese culture and the high-context nature of Japanese communication make some types of direct marketing messages less effective and may predispose many Japanese to support greater regulation of direct marketing practices.²⁷ A government's attitude toward importers has a direct impact on the economic feasibility of exporting to that country.

ETHICAL AND SOCIAL RESPONSIBILITY FORCES

Differences in national standards are illustrated by what the Mexicans call *la mordida*: “the bite.” The use of payoffs and bribes is deeply entrenched in many governments. Because U.S. trade and corporate policy, as well as U.S. law, prohibit direct involvement in payoffs and bribes, U.S. companies may have a hard time competing with foreign firms that engage in these practices. Some U.S. businesses that refuse to make payoffs are forced to hire local consultants, public relations firms, or advertising agencies, which results in indirect payoffs. The ultimate decision about whether to give small tips or gifts where they are customary must be based on a company's code of ethics. However, under the Foreign Corrupt Practices Act of 1977, it is illegal for U.S. firms to attempt to make large payments or bribes to influence policy decisions of foreign governments. Nevertheless, facilitating payments, or small payments to support the performance of standard tasks, are often acceptable. The Foreign Corrupt Practices Act also subjects all publicly held U.S. corporations to rigorous internal controls and record-keeping requirements for their overseas operations. Many other countries have also outlawed bribery.

Differences in ethical standards can also affect marketing efforts. In China and Vietnam, for example, standards regarding intellectual property differ dramatically from those in the United States, creating potential conflicts for marketers of computer software, music, and books. Pirated consumer goods, according to the U.S. Department of Commerce, cost \$650 billion annually.²⁸ See Table 8.3 for a list of the most counterfeited objects. In China, luxury handbag manufacturer Louis Vuitton (LV) pursued a store selling knockoffs of its purses. The store admitted to selling counterfeit LV goods to Canadian singer Celine Dion. The store was ordered to pay more than \$73,000 in compensation to LV over trademark infringement. In the Shanghai court system, this was the maximum compensation that could be awarded to LV.²⁹ Unfortunately, not all companies have had as much luck as Louis Vuitton in combating counterfeit products. The enormous amount of counterfeit products available worldwide, the time it takes to track them down, and legal barriers in certain countries make the pursuit of counterfeiters challenging for many companies.

When marketers do business abroad, they sometimes perceive that other business cultures have different modes of operation. This uneasiness is especially pronounced for marketers who



Entrepreneurship in Marketing

Made-in-Haiti Movement Seeks to Revitalize Haiti's Economy

Entrepreneur Mesh Gelman believes that commerce, not charity, is the key to fighting Haiti's poverty. Haiti is the poorest country in the Western hemisphere, with 70 percent unemployment. When Helman saw this extreme need, he and business partner Elizabeth Brown decided to promote the Made-in-Haiti movement through a Facebook page titled Choose Haiti. In one week, the page had more than 22,000 fans. The movement is striving to revive Haiti's textile industry, which has shrunk due to competition from China. To bring jobs back to Haiti, Gelman and Brown plan to move the production of their textile brand, American Blanket, from China to Haiti. Other textile companies, such as Beverly Hills Polo and the Gap, are also supporting the movement. President Obama approved the Haiti Economic Lift Program—a bill designed to increase textile trade between Haiti and the United States. With continued support from the government and from people like Gelman and Brown, Haiti hopes to increase employment in the textile industry from 25,000 to 150,000 Haitian workers.^b

TABLE 8.3 Most Frequently Counterfeited Goods

1. Brand-name clothing
2. Electronics
3. Handbags and luxury accessories
4. Medicine
5. CDs, DVDs, and video games
6. Automotive parts
7. Toys
8. Cosmetics and personal hygiene products
9. Cigarettes
10. Food and beverages

Source: "Counterfeit Culture," *CBC News*, www.cbc.ca/news/interactives/map-counterfeit-goods (accessed January 27, 2011).

have not traveled extensively or interacted much with foreigners in business or social settings. For example, a perception exists among many in the United States that U.S. firms are often different from those in other countries. This implied perspective of "us" versus "them" is also common in other countries. Table 8.4 indicates the countries that businesspeople, risk analysts, and the general public perceived as the most and least corrupt. In business, the idea that "we" differ from "them" is called the self-reference criterion (SRC). The SRC is the unconscious reference to one's own cultural values, experiences, and knowledge. When confronted with a situation, we react on the basis of knowledge we have accumulated over a lifetime, which is usually grounded in our culture of origin. Our reactions are based on meanings, values, and symbols that relate to our culture, but they may not have the same relevance to people of other cultures.

However, many businesspeople adopt the principle of "When in Rome, do as the Romans do." These businesspeople adapt to the cultural practices of the country they are in and use the host country's cultural practices as the rationalization for sometimes straying from their own ethical values when doing business internationally. For instance, by defending the payment of bribes or "greasing the wheels of business" and other questionable practices in this fashion, some businesspeople are resorting to **cultural relativism**—the concept that morality varies from one culture to another and that business practices are therefore differentially defined as right or wrong by particular cultures.

Because of differences in cultural and ethical standards, many companies work both individually and collectively to establish ethics programs and standards for international business conduct. Levi Strauss's code of ethics, for example, bars the firm from manufacturing in countries where workers are known to be abused. Starbucks's global code of ethics strives to protect agricultural workers who harvest coffee beans. Many other firms, including Texas Instruments, Coca-Cola, Du Pont, Hewlett-Packard, Levi Strauss & Company, Texaco, and Walmart, endorse responsible international business practices. These companies support a globally based resource system called Business for Social Responsibility (BSR). BSR tracks emerging issues and trends, provides information on corporate leadership and best practices, conducts educational workshops and training, and assists organizations in developing practical business ethics tools. It addresses such issues as community investment, corporate social

cultural relativism

The concept that morality varies from one culture to another and that business practices are therefore differentially defined as right or wrong by particular cultures

TABLE 8.4 Perceptions of the Least and Most Corrupt Countries

Least Corrupt	Most Corrupt
1. Denmark	1. Somalia
2. New Zealand	2. Myanmar
3. Singapore	3. Afghanistan
4. Finland	4. Iraq
5. Sweden	5. Uzbekistan
6. Canada	6. Turkmenistan
7. Netherlands	7. Sudan
8. Australia	8. Chad
9. Switzerland	9. Burundi
10. Norway	10. Equatorial Guinea
11. Iceland	11. Angola
12. Luxembourg	12. Venezuela
13. Hong Kong	13. Kyrgyzstan
14. Ireland	14. Guinea

Note: The United States is perceived as the 22nd least corrupt nation.

Source: "Corruption Perceptions Index 2010," Transparency International, www.transparency.org/policy_research/surveys_indices/cpi/2010/results (accessed January 27, 2011).

responsibility, the environment, governance, and accountability. BSR has also established formal partnerships with other organizations that focus on corporate responsibility in Brazil, Israel, the United Kingdom, Chile, and Panama.³⁰

COMPETITIVE FORCES

Competition is often viewed as a staple of the global marketplace. Customers thrive on the choices offered by competition, and firms constantly seek opportunities to outmaneuver their competition to gain customers' loyalty. Firms typically identify their competition when they establish target markets worldwide. Customers who are seeking alternative solutions to their product needs find the firms that can solve those needs. However, the increasingly interconnected international marketplace and advances in technology have resulted in competitive forces that are unique to the international marketplace.

Beyond the types of competition (i.e., brand, product, generic, and total budget competition) and types of competitive structures (i.e., monopoly, oligopoly, monopolistic competition, and pure competition), which are discussed in Chapter 3, firms that operate internationally must do the following:

- Be aware of the competitive forces in the countries they target.
- Identify the interdependence of countries and the global competitors in those markets.
- Be mindful of a new breed of customers: the global customer.



© Nick Cleave Photography/Alamy

Competitive Forces

Starbucks maintains a global competitive advantage by focusing on product quality and employee satisfaction.

Each country has unique competitive aspects—often founded in the other environmental forces (i.e., socio-cultural, technological, political, legal, regulatory, and economic forces)—that are often independent of the competitors in that market. The most globally competitive countries are listed in Table 8.5. Although competitors drive competition, nations establish the infrastructure and the rules for the types of competition that can take place. For example, Microsoft's almost monopolistic dominance in many countries' markets led the United Nations' European Commission to a longstanding legal battle over the firm's marketing and competitive practices related to its bundling of a media player with its Windows computer operating system. Microsoft ultimately lost the battle, as well as an appeal to the Court of First Instance, and paid fines and penalties of nearly \$2.4 billion.³¹ Like the United States, other countries allow some monopoly structures to exist. Consider Sweden; its alcohol sales are made through the governmental store Systembolaget, which is legally supported by the Swedish Alcohol Retail Monopoly. According to Systembolaget, the Swedish Alcohol Retail Monopoly exists for one reason: "to minimize alcohol-related problems by selling alcohol in a responsible way."³²

A new breed of customer—the global customer—has changed the landscape of international competition drastically. In the past, firms simply produced goods or services and provided local markets with information about the features and uses of their goods and services. Customers seldom had opportunities to compare products from competitors,

TABLE 8.5 Ranking of the Most Competitive Countries in the World

1. Switzerland	11. Hong Kong SAR
2. Sweden	12. United Kingdom
3. Singapore	13. Taiwan, China
4. United States	14. Norway
5. Germany	15. France
6. Japan	16. Australia
7. Finland	17. Qatar
8. Netherlands	18. Austria
9. Denmark	19. Belgium
10. Canada	20. Luxembourg

Source: Joaquín Almunia, Paola Annoni, Jennifer Blanke, Ciara Browne, Margareta Drzeniek Hanouz, Thierry Gieger, Irene Mia, Michela Nardo, and Xavier Sala-i-Martin, *The Global Competitiveness Report 2010–2011*, World Economic Forum (Palgrave Macmillan), www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf (accessed January 27, 2011).

know details about the competing products' features, and compare other options beyond the local (country or region) markets. Now, however, not only do customers who travel the globe expect to be able to buy the same product in most of the world's more than 200 countries, but they also expect that the product they buy in their local store in Miami will have the same features as similar products sold in London or even in Beijing. If either the quality of the product or the product's features are more advanced in an international market, customers will soon demand that their local markets offer the same product at the same or lower prices.

TECHNOLOGICAL FORCES

Advances in technology have made international marketing much easier. Interactive web systems, instant messaging, and podcast downloads (along with the traditional vehicles of voice mail, e-mail, fax, and cell phones) make international marketing activities more affordable and convenient. Internet use and social networking activities have accelerated dramatically within the United States and abroad. For instance, Facebook has been highly successful in Russia with a growth rate of 376 percent in less than a year. Whereas Google has struggled to gain market share in the country, Facebook quickly became the fifth largest social networking site.³³ On the other hand, Cuba is the least connected country in the Americas, with only 3 percent of Cubans frequently using the Internet. Internet service is banned in most private homes.³⁴

In many developing countries that lack the level of technological infrastructure found in the United States and Japan, marketers are beginning to capitalize on opportunities to leapfrog existing technology. For example, cellular and wireless phone technology is reaching many countries at a more affordable rate than traditional hard-wired telephone systems. Consequently, opportunities for growth in the cell phone market remain strong in Southeast Asia, Africa, and the Middle East. One opportunity created by the rapid growth in cell phone service contracts in China is the *shouji jiayouzhan*, or "cell phone gas station," which allows consumers to recharge their phone, camera, and PDA batteries quickly and cheaply, and they can watch commercials during the 10-minute charging session.³⁵ China's transportation infrastructure is also being enhanced by its high-speed rail network, considered to be the most ambitious public works project in the world.³⁶



Staying Ahead of the Competition

Louis Vuitton maintains a leadership position by providing exclusive, high-quality goods.

Regional Trade Alliances, Markets, and Agreements

Although many more firms are beginning to view the world as one huge marketplace, various regional trade alliances and specific markets affect companies engaging in international marketing; some create opportunities, and others impose constraints. In fact, while trade agreements in various forms have been around for centuries, the last century can be classified as the trade agreement period in the world's international development. Today, there are nearly 200 trade agreements around the world compared with only a select handful in the early 1960s. In this section, we examine several of the more critical regional trade alliances, markets, and changing conditions affecting markets. These include the North American Free Trade Agreement, European Union, Southern Common Market, Asia-Pacific Economic Cooperation, and World Trade Organization.

THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

The **North American Free Trade Agreement (NAFTA)**, implemented in 1994, effectively merged Canada, Mexico, and the United States into one market of nearly 455 million consumers. NAFTA eliminated virtually all tariffs on goods produced and traded among Canada, Mexico, and the United States to create a free trade area. The estimated annual output for this trade alliance is more than \$14 trillion.³⁷

NAFTA makes it easier for U.S. businesses to invest in Mexico and Canada; provides protection for intellectual property (of special interest to high-technology and entertainment industries); expands trade by requiring equal treatment of U.S. firms in both countries; and simplifies country-of-origin rules, hindering Japan's use of Mexico as a staging ground for further penetration into U.S. markets. Although most tariffs on products coming to the United States were lifted, duties on more sensitive products, such as household glassware, footwear, and some fruits and vegetables, were phased out over a 15-year period.

Canada's more than 33 million consumers are relatively affluent, with a per capita GDP of \$39,600. Trade between the United States and Canada totals approximately \$480 billion.³⁸ Currently, exports to Canada support approximately 1.5 million U.S. jobs. In fact, Canada is the single largest trading partner of the United States.

With a per capita GDP of \$13,800, Mexico's 112 million consumers are less affluent than Canadian consumers. However, they bought more than \$150 billion worth of U.S. products in a recent year.³⁹ Many U.S. companies, including Hewlett-Packard, IBM, and General Motors, have taken advantage of Mexico's low labor costs and close proximity to the United States to set up production facilities, sometimes called *maquiladoras*. Production at the *maquiladoras*, especially in the automotive, electronics, and apparel industries, has grown rapidly as companies as diverse as Ford, John Deere, Motorola, Sara Lee, Kimberly-Clark, and VF Corporation set up facilities in north-central Mexican states. Although Mexico experienced financial instability throughout the 1990s and is experiencing another bout of instability because of drug cartel violence, privatization of some government-owned firms and other measures instituted by the Mexican government and businesses, along with a booming U.S. economy, have helped Mexico's economy. Moreover, increasing trade between the United States and Canada constitutes a strong base of support for the ultimate success of NAFTA.

Mexico's membership in NAFTA links the United States and Canada with other Latin American countries, providing additional opportunities to integrate trade among all the

North American Free Trade Agreement (NAFTA)

An alliance that merges Canada, Mexico, and the United States into a single market

nations in the Western Hemisphere. Indeed, efforts to create a free trade agreement among the 34 nations of North and South America are under way. A related trade agreement—the *Dominican Republic–Central American Free Trade Agreement (CAFTA-DR)*—among Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and the United States has also been ratified in all those countries except Costa Rica. U.S. exports more than \$26 billion to the CAFTA-DR countries annually.⁴⁰

Despite its benefits, NAFTA has been controversial, and disputes continue to arise over its implementation. The three countries have found it difficult to agree on the best way for enforcing the trade agreement. For instance, the Mexican president has called for a union among the three economies that would allow the trade bloc to compete against Asia. However, his vision has not been accepted by the other leaders. Leaders in the trading bloc are meeting less often, and many of the goals that were first set for the years following NAFTA have not been met. One reason was the September 11, 2001, attacks that prompted the United States to increase border controls. It has been estimated that less than 1 percent of the border between the United States and Canada is secure, and the drug wars near the Mexican border make it unlikely that the United States will loosen its border controls any time soon. Another problem with the trilateral agreement is the fact that Mexico and Canada seem more intent on their relationships with the United States than with each other.⁴¹ Firms have also faced difficulties under NAFTA. ExxonMobil filed a lawsuit against the Canadian government for damages resulting from Canada's imposition of new costs on offshore petroleum projects, which the company believes violates the provisions of the trade agreement.⁴²

Although many Americans feared the agreement would erase jobs in the United States, Mexicans have been disappointed that it failed to create more jobs. Although NAFTA has been controversial, it has become a positive factor for U.S. firms that want to engage in international marketing. Because licensing requirements have been relaxed under the pact, smaller businesses that previously could not afford to invest in Mexico and Canada will be able to do business in those markets without having to locate there. NAFTA's long phase-in period provides ample time for adjustment for those firms affected by reduced tariffs on imports. Increased competition should lead to a more efficient market, and the long-term prospects of including most Western Hemisphere countries in the alliance promise additional opportunities for U.S. marketers.

THE EUROPEAN UNION (EU)

The **European Union (EU)**, sometimes also referred to as the *European Community* or *Common Market*, was established in 1958 to promote trade among its members, which initially included Belgium, France, Italy, West Germany, Luxembourg, and the Netherlands. In 1991, East and West Germany united, and by 2010, the EU included the United Kingdom, Spain, Denmark, Greece, Portugal, Ireland, Austria, Finland, Sweden, Cyprus, Poland, Hungary, the Czech Republic, Slovenia, Estonia, Latvia, Lithuania, Slovakia, Malta, Romania, and Bulgaria. Croatia, the Former Yugoslav Republic of Macedonia, and Turkey are candidate countries that hope to join the European Union in the near future.⁴³

The European Union consists of nearly half a billion consumers and has a combined GDP of more than \$14 trillion.⁴⁴ Although only 7 percent of the population, the EU generates nearly 22 percent of the world's GDP.⁴⁵ The EU is a relatively diverse set of democratic European countries. It is not a state that is intended to replace existing country states, nor is it an organization for international cooperation. Instead, its member-states have common institutions to which they delegate some of their sovereignty to allow specific matters of joint interest to be decided at the European level. The primary goals of the EU are to establish European citizenship; ensure freedom, security, and justice; promote economic and social progress; and assert Europe's role in world trade.⁴⁶ To facilitate free trade among members,

European Union (EU)

An alliance that promotes trade among its member countries in Europe

the EU is working toward standardizing business regulations and requirements, import duties, and value-added taxes; eliminating customs checks; and creating a standardized currency for use by all members. Many European nations (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain) are linked to a common currency, the euro, but several EU members have rejected the euro in their countries (e.g., Denmark, Sweden, and the United Kingdom). On January 1, 2011, Estonia became the 17th country to join the euro zone and adopt the euro.⁴⁷ Although the common currency may necessitate that marketers modify their pricing strategies and may subject them to increased competition, it also frees companies that sell products among European countries from the complexities of exchange rates. The long-term goals are to eliminate all trade barriers within the EU, improve the economic efficiency of the EU nations, and stimulate economic growth—thus making the union's economy more competitive in global markets, particularly against Japan and other Pacific Rim nations and North America.

The recent worldwide recession, however, has slowed Europe's economic growth and has contributed to unrest in certain nations. Several members experienced severe budget deficits, and three countries—Ireland, Greece, and Portugal—required significant bailouts from the International Monetary Fund. As part of the deal, and in order to secure additional funds, these countries implemented austerity measures to reduce their deficit. Greece's announcement that it planned to reduce its deficit by making budget cuts and increasing taxes led to wide-scale demonstrations within the country. Germany, on the other hand, will likely see its impact on the euro-zone increase. Because Germany is home to several exporting companies, its exports are in high demand in fast-growing economies, and it has a smaller budget deficit and household debt, Germany is expected to do better economically than its European counterparts. In fact, economists predict that Germany's GDP will experience higher than average growth in the area.⁴⁸

As the EU nations attempt to function as one large market, consumers in the EU may become more homogeneous in their needs and wants. Marketers should be aware, however, that cultural differences among the nations may require modifications in the marketing mix for customers in each nation. Differences in tastes and preferences in these diverse markets are significant for international marketers. But there is evidence that such differences may be diminishing, especially within the younger population that includes teenagers and young professionals. Gathering information about these distinct tastes and preferences is likely to remain a very important factor in developing marketing mixes that satisfy the needs of European customers.

Global Alliances

Alliances like Mercosur allow countries to share perspectives and advance commerce among member countries.



THE SOUTHERN COMMON MARKET (MERCOSUR)

The **Southern Common Market (Mercosur)** was established in 1991 under the Treaty of Asunción to unite Argentina, Brazil, Paraguay, and Uruguay as a free trade alliance. Venezuela joined in 2006. Currently, Bolivia, Chile, Colombia, Ecuador, and Peru are associate members. The alliance represents two-thirds of South America's population and has a combined GDP of more than \$3 trillion, making it the fourth-largest trading bloc behind NAFTA and the EU. Like NAFTA, Mercosur promotes "the free circulation of goods, services, and production factors among the countries" and establishes a common external tariff and commercial policy.⁴⁹

South America and Latin America are catching the attention of many international businesses. The region is advancing economically with an estimated growth rate of 4 to 5 percent. Another trend is that several of the countries, including some of the Mercosur alliance, are starting to experience more stable democracies. Even Cuba, one of the traditionally harshest critics of capitalism in Latin America, is embracing more privatization. After up to 1 million state workers were laid off in 2011, many Cubans had to try to earn their living in the country's expanding private sector.⁵⁰

THE ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

The **Asia-Pacific Economic Cooperation (APEC)**, established in 1989, promotes open trade and economic and technical cooperation among member-nations, which initially included Australia, Brunei Darussalam, Canada, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and the United States. Since then, the alliance has grown to include China, Hong Kong, Taiwan, Mexico, Papua New Guinea, Chile, Peru, Russia, and Vietnam. The 21-member alliance represents approximately 41 percent of the world's population, 54 percent of world GDP, and nearly 44 percent of global trade. APEC differs from other international trade alliances in its commitment to facilitating business and its practice of allowing the business/private sector to participate in a wide range of APEC activities.⁵¹

Companies of the APEC have become increasingly competitive and sophisticated in global business in the last few decades. Moreover, the markets of the APEC offer tremendous opportunities to marketers who understand them. In fact, the APEC region has consistently been one of the most economically dynamic parts of the world. In its first decade, the APEC countries generated almost 70 percent of worldwide economic growth, and the APEC region consistently outperformed the rest of the world.⁵²

Japanese firms in particular have made tremendous inroads on world markets for automobiles, motorcycles, watches, cameras, and audio and video equipment. Products from Sony, Sanyo, Mitsubishi, Canon, Suzuki, and Toshiba are sold all over the world and have set standards of quality by which other products are often judged. Sony is often viewed as the benchmark of the global company. Despite the high volume of trade between the United States and Japan, the two economies are less integrated than the U.S. economy is with Canada and the European Union. If Japan imported goods at the same rate as other major nations, the United States would sell billions of dollars more each year to Japan.

The most important emerging economic power is China, which has become one of the most productive manufacturing nations. China, which is now the United States' second-largest trading partner, has initiated economic reforms to stimulate its economy by privatizing many industries, restructuring its banking system, and increasing public spending on infrastructure. China is a manufacturing powerhouse; its economy grew at a rate of nearly 10.3 percent in 2010 but is expected to slow somewhat over the next few

Southern Common Market (Mercosur)

An alliance that promotes the free circulation of goods, services, and production factors, and has a common external tariff and commercial policy among member nations in South America

Asia-Pacific Economic Cooperation (APEC)

An alliance that promotes open trade and economic and technical cooperation among member nations throughout the world

years.⁵³ Many foreign companies, including Nike and Adidas, have factories in China to take advantage of its low labor costs, and China has become a major global producer in virtually every product category. Conversely, some Chinese plants are choosing to move to the United States. For instance, Suntech Power Holdings operates a 117,000-square-foot Chinese plant located in Arizona. Some of the reasons for moving to America include the ability to evade certain Chinese trade barriers and—in the case of Suntech—to take advantage of the U.S. government's push toward alternative energy.⁵⁴

For international businesses, the potential of China's consumer market is so vast that it is almost impossible to measure. However, doing business in China entails many risks. Political and economic instability—especially inflation, corruption, and erratic policy shifts—have undercut marketers' efforts to stake a claim in what could become the world's largest market. Moreover, piracy is a major issue, and protecting a brand name in China is difficult. Because copying is a tradition in China, and laws that protect copyrights and intellectual property are weak and minimally enforced, the country is flooded with counterfeit videos, movies, compact discs, computer software, furniture, and clothing.

Pacific Rim regions such as South Korea, Thailand, Singapore, Taiwan, and Hong Kong are also major manufacturing and financial centers. Even before Korean brand names such as Samsung, Daewoo, and Hyundai became household words, these products prospered under U.S. company labels, including GE, GTE, RCA, and JCPenney. Singapore boasts huge global markets for rubber goods and pharmaceuticals. Hong Kong is still a strong commercial center after being transferred to Chinese control. Vietnam is one of Asia's fastest-growing markets for U.S. businesses, but Taiwan, given its stability and high educational attainment, has the most promising future of all the Pacific Rim nations as a strong local economy and low import barriers draw increasing imports. The markets of APEC offer tremendous opportunities to marketers who understand them. For instance, Yum! Brands, the number-two fast-food chain after McDonald's, opened its first KFC fast-food restaurant in China in 1987 and has since opened more than 3,000 KFC and Pizza Hut outlets in China, as well as a new concept store called East Dawning, which serves Chinese fast food. Yum! Brands gets 60 percent of its profits from overseas, with sales in China overtaking sales in the U.S. market.⁵⁵

Green Marketing



Chinese Tilapia: Environmental and Product Quality Issues

Tilapia is a favorite among fish lovers and producers alike. The mild white fish grows quickly, is inexpensive to produce, and is coveted by seafood lovers. China leads the way in farm raising these fish. Despite its popularity, the sustainability of this fish is controversial. The Monterey Bay Aquarium sets the standards by which many consumers judge fish, and the organization gives Chinese tilapia an "avoid" rating. The aquarium sights pollution, disease, the contamination of wild populations, and habitat damage as potential risks. Additionally, some producers use

carbon monoxide to preserve the fresh appearance of the fish. Critics suggest that this may mask signs of fish gone bad. On the other hand, the Chinese government employs inspectors to check for toxic substances and additives before exporting, and many buyers employ outside inspectors. The World Wildlife Fund is working to pinpoint farms that are making improvements so that not all farms are affected by the poor behavior of some. Despite sustainability concerns, consumption of tilapia is rising, and Chinese fish farmers are there to meet the demand.⁶

THE WORLD TRADE ORGANIZATION (WTO)

The **World Trade Organization (WTO)** is a global trade association that promotes free trade among 153 member-nations. The WTO is the successor to the **General Agreement on Tariffs and Trade (GATT)**, which was originally signed by 23 nations in 1947 to provide a forum for tariff negotiations and a place where international trade problems could be discussed and resolved. Rounds of GATT negotiations reduced trade barriers for most products and established rules to guide international commerce, such as rules to prevent **dumping**, the selling of products at unfairly low prices.

The WTO came into being in 1995 as a result of the Uruguay Round (1988–1994) of GATT negotiations. Broadly, WTO is the main worldwide organization that deals with the rules of trade between nations; its main function is to ensure that trade flows as smoothly, predictably, and freely as possible between nations. In 2010, 153 nations were members of the WTO.⁵⁶

Fulfilling the purpose of the WTO requires eliminating trade barriers; educating individuals, companies, and governments about trade rules around the world; and assuring global markets that no sudden changes of policy will occur. At the heart of the WTO are agreements that provide legal ground rules for international commerce and trade policy. Based in Geneva, Switzerland, the WTO also serves as a forum for dispute resolution.⁵⁷ For example, the WTO ruled that the European Union's tariffs on Chinese fasteners discriminated against Chinese exporters. The EU had claimed that China was dumping its steel fasteners and imposed tariffs of 63 to 87 percent.⁵⁸

Modes of Entry into International Markets

Marketers enter international markets and continue to engage in marketing activities at several levels of international involvement. Traditionally, firms have adopted one of four different modes of entering an international market; each successive “stage” represents different degrees of international involvement.

- Stage 1: No regular export activities.
- Stage 2: Export via independent representatives (agents).
- Stage 3: Establishment of one or more sales subsidiaries internationally.
- Stage 4: Establishment of international production/manufacturing facilities.⁵⁹

As Figure 8.1 shows, companies' international involvement today covers a wide spectrum, from purely domestic marketing to global marketing. Domestic marketing involves marketing strategies aimed at markets within the home country; at the other extreme, global marketing entails developing marketing strategies for the entire world (or at least more than one major region of the world). Many firms with an international presence start out as small companies serving local and regional domestic markets and expand to national markets before considering opportunities in foreign markets (the born global firm, described earlier, is one exception to this internationalization process). Limited exporting may occur even if a firm makes little or no effort to obtain foreign sales. Foreign buyers may seek out the company and/or its products, or a distributor may discover the firm's products and export them. The level of commitment to international marketing is a major variable in global marketing strategies. In this section, we examine importing and exporting, trading companies, licensing and franchising, contract manufacturing, joint ventures, direct ownership, and some of the other approaches to international involvement.

World Trade Organization (WTO)

An entity that promotes free trade among member nations by eliminating trade barriers and educating individuals, companies, and governments about trade rules around the world

General Agreement on Tariffs and Trade (GATT)

An agreement among nations to reduce worldwide tariffs and increase international trade

dumping

Selling products at unfairly low prices

FIGURE 8.1 Levels of Involvement in Global Marketing

IMPORTING AND EXPORTING

Importing and exporting require the least amount of effort and commitment of resources. **Importing** is the purchase of products from a foreign source. **Exporting**, the sale of products to foreign markets, enables firms of all sizes to participate in global business. A firm may find an exporting intermediary to take over most marketing functions associated with marketing to other countries. This approach entails minimal effort and cost. Modifications in packaging, labeling, style, or color may be the major expenses in adapting a product for the foreign market.

Export agents bring together buyers and sellers from different countries and collect a commission for arranging sales. Export houses and export merchants purchase products from different companies and then sell them abroad. They are specialists at understanding customers' needs in global markets. Using exporting intermediaries involves limited risk because no foreign direct investment is required.

Buyers from foreign companies and governments provide a direct method of exporting and eliminate the need for an intermediary. These buyers encourage international exchange by contacting overseas firms about their needs and the opportunities available in exporting to them. Indeed, research suggests that many small firms tend to rely heavily on such native contacts, especially in developed markets, and remain production oriented rather than market oriented in their approach to international marketing.⁶⁰ Domestic firms that want to

importing

The purchase of products from a foreign source

exporting

The sale of products to foreign markets

export with minimal effort and investment should seek out export intermediaries. Once a company becomes involved in exporting, it usually develops more knowledge of the country and becomes more confident in its competitiveness.⁶¹

TRADING COMPANIES

Marketers sometimes employ a **trading company**, which links buyers and sellers in different countries but is not involved in manufacturing and does not own assets related to manufacturing. Trading companies buy products in one country at the lowest price consistent with quality and sell them to buyers in another country. For instance, SCiNet World Trade System offers a 24-hour-per-day online world trade system that connects 17 million companies in 245 countries, offering more than 50 million products and services. The SCiNet system offers online payments and handles customs, tariffs, and inspections of goods for its clients.⁶² A trading company acts like a wholesaler, taking on much of the responsibility of finding markets while facilitating all marketing aspects of a transaction. An important function of trading companies is taking title to products and performing all the activities necessary to move the products to the targeted foreign country. For instance, large grain-trading companies that operate out-of-home offices in both the United States and overseas control a major portion of the world trade of basic food commodities. These trading companies sell homogeneous agricultural commodities that can be stored and moved rapidly in response to market conditions.

Trading companies reduce risk for firms that want to get involved in international marketing. A trading company provides producers with information about products that meet quality and price expectations in domestic and international markets. Additional services a trading company may provide include consulting, marketing research, advertising, insurance, product research and design, legal assistance, warehousing, and foreign exchange.

trading company

A company that links buyers and sellers in different countries

licensing

An alternative to direct investment that requires a licensee to pay commissions or royalties on sales or supplies used in manufacturing

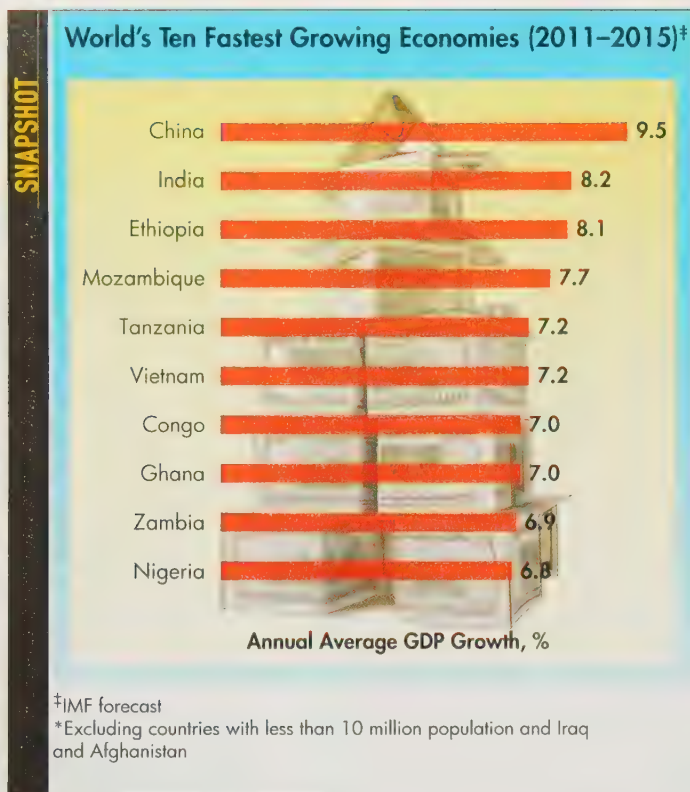
LICENSING AND FRANCHISING

When potential markets are found across national boundaries, and when production, technical assistance, or marketing know-how is required, **licensing** is an alternative to direct investment. The licensee (the owner of the foreign operation) pays commissions or royalties on sales or supplies used in manufacturing. The licensee may also pay an initial down payment or fee when the licensing agreement is signed. Exchanges of management techniques or technical assistance are primary reasons for licensing agreements. Yoplait, for example, is a French yogurt that is licensed for production in the United States; the Yoplait brand tries to maintain a French image. Similarly, sports organizations such as the International Olympic Committee (IOC), which is responsible for the Olympic Games, typically concentrate on organizing their sporting events while licensing the merchandise and other products that are sold.

Licensing is an attractive alternative when resources are unavailable for direct investment or when the core competencies of the firm or organization are not related to the product being sold (such as in the case of Olympics merchandise). Licensing can also be a viable alternative when the political stability of a foreign country is in

Global Franchising

Subway offers an extensive global franchise network.



Source: *The Economist*, January 8–14, 2011, p. 72; IMF.

doubt. In addition, licensing is especially advantageous for small manufacturers wanting to launch a well-known brand internationally. For example, Questor Corporation owns the Spalding name but does not produce a single golf club or tennis ball itself; all Spalding sporting products are licensed worldwide.

Franchising is a form of licensing in which a company (the franchiser) grants a franchisee the right to market its product—using its name, logo, methods of operation, advertising, products, and other elements associated with the franchiser's business—in return for a financial commitment and an agreement to conduct business in accordance with the franchiser's standard of operations. This arrangement allows franchisers to minimize the risks of international marketing in four ways: (1) the franchiser does not have to put up a large capital investment; (2) the franchiser's revenue stream is fairly consistent because franchisees pay a fixed fee and royalties; (3) the franchiser retains control of its name and increases global penetration of its product; and (4) franchise agreements ensure a certain standard of behavior from franchisees, which protects the fran-

chise name.⁶³ Subway, McDonald's, and ampm are among the top 10 franchises in the world; other well-known franchisers with international visibility include Hampton Inn, H&R Block, and Supercuts.

contract manufacturing

The practice of hiring a foreign firm to produce a designated volume of the domestic firm's product or a component of it to specification; the final product carries the domestic firm's name

outsourcing

The practice of contracting noncore operations with an organization that specializes in that operation

offshoring

The practice of moving a business process that was done domestically at the local factory to a foreign country, regardless of whether the production accomplished in the foreign country is performed by the local company (e.g., in a wholly owned subsidiary) or a third party (e.g., subcontractor)

CONTRACT MANUFACTURING

Contract manufacturing occurs when a company hires a foreign firm to produce a designated volume of the firm's product (or a component of a product) to specification and the final product carries the domestic firm's name. The Gap, for example, relies on contract manufacturing for some of its apparel; Reebok uses Korean contract manufacturers to produce many of its athletic shoes. Marketing may be handled by the contract manufacturer or by the contracting company.

Three specific forms of contract manufacturing have become popular in the last decade: outsourcing, offshoring, and offshore outsourcing. **Outsourcing** is defined as the contracting of noncore operations or jobs from internal production within a business to an external entity that specializes in that operation. For example, outsourcing certain elements of a firm's operations to China and Mexico has become popular. The majority of all footwear is now produced in China, regardless of the brand name on the shoe you wear. Over the past 20 years, U.S. domestic apparel manufacturing fell from 41 percent to 3 percent due to outsourcing.⁶⁴ Services can also be outsourced. Vodafone and France-telecom owned Orange, mobile telecommunications companies in Britain, outsource the management of their networks to Ericsson and Nokia in an effort to improve margins and cost efficiencies as well as to focus more on innovation.⁶⁵ **Offshoring** is defined as moving a business process that was done domestically at the local factory to a foreign country, regardless of whether the production accomplished in the foreign country is performed by the local company (e.g., in a wholly owned subsidiary) or a third party (e.g., subcontractor). Typically, the production is moved to reap the advantages of lower cost of operations in the foreign location.

Offshore outsourcing is the practice of contracting with an organization to perform some or all business functions in a country other than the country in which the product or service will be sold. Today, some clothing manufacturers that previously engaged in offshore outsourcing are moving production back to the United States to maintain quality and tighter inventory control.⁶⁶

JOINT VENTURES

In international marketing, a **joint venture** is a partnership between a domestic firm and a foreign firm or government. Joint ventures are especially popular in industries that require large investments, such as natural resources extraction or automobile manufacturing. Control of the joint venture may be split equally, or one party may control decision making. Joint ventures are often a political necessity because of nationalism and government restrictions on foreign ownership. In spite of an unpredictable political environment under democratically elected socialist president Hugo Chávez, many nations are eager to form joint ventures with Venezuelan national oil companies in order to gain access to Venezuela's petroleum resources. Russian and Belarusian oil companies have both joined up with Petroleos de Venezuela.⁶⁷ However, the Chávez regime has been hostile to some direct foreign investment from capitalist countries, particularly that of U.S. companies. Joint ventures may also occur when acquisition or internal development is not feasible or when the risks and constraints leave no other alternative. They also provide legitimacy in the eyes of the host country's citizens. Local partners have firsthand knowledge of the economic and sociopolitical environment and the workings of available distribution networks, and they may have privileged access to local resources (raw materials, labor management, and so on). However, joint venture relationships require trust throughout the relationship to provide a foreign partner with a ready means of implementing its own marketing strategy. Joint ventures are assuming greater global importance because of cost advantages and the number of inexperienced firms that are entering foreign markets. They may be the result of a trade-off between a firm's desire for completely unambiguous control of an enterprise and its quest for additional resources.

offshore outsourcing

The practice of contracting with an organization to perform some or all business functions in a country other than the country in which the product or service will be sold

joint venture

A partnership between a domestic firm and a foreign firm or government



Strategic Alliances

American Airlines, British Airlines, and Iberia formed an alliance in serving transatlantic routes called One World.

Strategic alliances are partnerships formed to create competitive advantage on a worldwide basis. They are very similar to joint ventures, but while joint ventures are defined in scope, strategic alliances are typically represented by an agreement to work together (which can ultimately mean more involvement than a joint venture). In an international strategic alliance, the firms in the alliance may have been traditional rivals competing for the same market. They may also be competing in certain markets while working together in other markets where it is beneficial for both parties. One such collaboration is the Sky Team Alliance—involving KLM, Aeromexico, Air France, Alitalia, CSA Czech Airlines, Delta, Korean Air, Kenya Airways, Aeroflot, AirEuropa, Vietnam Airlines, Tarom Romanian Air Transport, and China Southern Airlines—which is designed to improve customer service among the nine firms.⁶⁸ Ascent Solar, a company that makes solar panels, formed a strategic alliance with Indian firm Kirloskar Integrated Technologies Limited. The alliance benefits both companies, because Kirloskar will integrate Ascent Solar's technologies into its products, and Ascent Solar gains a foothold in the fast-growing Indian market.⁶⁹ Whereas joint ventures are formed to create a new identity, partners in strategic alliances often retain their distinct identities, with each partner bringing a core competency to the union.

The success rate of international alliances could be higher if a better fit between the companies existed. A strategic alliance should focus on a joint market opportunity from which all partners can benefit. In the automobile, computer, and airline industries, strategic alliances are becoming the predominant means of competing internationally. Competition in these industries is so fierce and the costs of competing on a global basis are so high that few firms have all the resources needed to do it alone. Firms that lack the internal resources essential for international success may seek to collaborate with other companies. A shared mode of leadership among partner corporations combines joint abilities and allows collaboration from a distance. Focusing on customer value and implementing innovative ways to compete create a winning strategy.

DIRECT OWNERSHIP

Once a company makes a long-term commitment to marketing in a foreign country that has a promising market as well as a suitable political and economic environment, **direct ownership** of a foreign subsidiary or division is a possibility. Most foreign investment covers only manufacturing equipment or personnel because the expenses of developing a separate foreign distribution system can be tremendous. The opening of retail stores in Europe, Canada, or Mexico can require a staggering financial investment in facilities, research, and management.

The term **multinational enterprise**, sometimes called a *multinational corporation*, refers to a firm that has operations or subsidiaries in many countries. Often the parent company is based in one country and carries on production, management, and marketing activities in other countries. The firm's subsidiaries may be autonomous so they can respond to the needs of individual international markets, or they may be part of a global network that is led by the headquarters' operations.

At the same time, a wholly owned foreign subsidiary may be allowed to operate independently of the parent company to give its management more freedom to adjust to the local environment. Cooperative arrangements are developed to assist in marketing efforts, production, and management. A wholly owned foreign subsidiary may export products to the home country, its market may serve as a test market for the firm's global products, or it may be a component of the firm's globalization efforts. Some U.S. automobile manufacturers, for example, import cars built by their foreign subsidiaries. A foreign subsidiary offers important tax, tariff, and other operating advantages. Table 8.6 lists the 10 largest global corporations.

One of the greatest advantages of a multinational enterprise is the cross-cultural approach. A subsidiary usually operates under foreign management so it can develop a local identity. In particular, the firm (i.e., seller) is often expected to adapt, if needed, to the buyer's culture.

strategic alliance

A partnership that is formed to create a competitive advantage on a worldwide basis

direct ownership

A situation in which a company owns subsidiaries or other facilities overseas

multinational enterprise

A firm that has operations or subsidiaries in many countries

TABLE 8.6 Top 10 Largest Corporations

Rank	Company	Revenue (in Millions)	Country
1	Wal-Mart Stores	421,849	United States
2	Royal Dutch Shell	378,152	Netherlands
3	ExxonMobil	354,674	United States
4	BP	308,928	Britain
5	Sinopec Group	273,422	China
6	China National Petroleum	240,192	China
7	State Grid	226,294	China
8	Toyota Motor	221,760	Japan
9	Japan Post Holdings	203,958	Japan
10	Chevron	196,337	United States

Source: "Global 500: Fortune's Annual Ranking of the World's Largest Corporations," *CNNMoney*, <http://money.cnn.com/magazines/fortune/global500/2011/index.html> (accessed July 7, 2011).

Interestingly, the cultural values of customers in the younger age group (30 years and younger) is becoming increasingly similar around the world. Today, a 20-year-old in Russia is increasingly similar in mindset to a 20-year-old in China and a 20-year-old in the United States, especially with regard to their tastes in music, clothes, and cosmetics. This makes marketing goods and services to the younger population easier today than it was only a generation ago. Nevertheless, there is still great danger involved in having a wholly owned subsidiary in some parts of the world due to political uncertainty, terrorism threats, and economic instability.

Whereas the most well-known multinational corporations (MNCs) come from developed countries, the world is seeing a rise in MNCs from emerging economies as well. Brazil's Embraer (an aircraft company) and South Africa's MTN (a mobile phone company) are two examples. India's Tata group is even beginning to rival more established MNCs. Tata owns several firms that qualify as MNCs, specializing in such diverse products as cars, hotels, steel, and chemicals. These conglomerates—in which one major entity owns several companies—are becoming an organizational trend among multinationals from developing nations.⁷⁰

Global Organizational Structures

Firms develop their international marketing strategies and manage their marketing mixes (i.e., product, distribution, promotion, and price) by developing and maintaining an organizational structure that best leverages their resources and core competencies. This organizational structure is defined as the way a firm divides its operations into separate functions and/or value-adding units and coordinates its activities. Most firms undergo a step-by-step development in their internationalization efforts of the firm's people, processes, functions, culture, and structure. The pyramid in Figure 8.2 symbolizes how deeply rooted the international operations and values are in the firm, with the base of the pyramid—structure—being the most difficult to change (especially in the short term). Three basic structures of international

FIGURE 8.2 Organizational Architecture

organizations exist: export departments, international divisions, and internationally integrated structures (e.g., product division structures, geographic area structures, and matrix structures). The existing structure of the firm, or the structure that the firm chooses to adopt, has implications for international marketing strategy.

EXPORT DEPARTMENTS

For most firms, the early stages of international development are often informal and not fully planned. During this early stage, sales opportunities in the global marketplace motivate a company to engage internationally. For instance, born global firms make exporting a primary objective from their inception. For most firms, however, very minimal, if any, organizational adjustments take place to accommodate international sales. Foreign sales are typically so small that many firms cannot justify allocating structural or other resources to the internationalization effort in the infancy of internationalization. Exporting, licensing, and using trading companies are preferred modes of international market entry for firms with an export department structure.

Some firms develop an export department as a subunit of the marketing department, whereas others organize it as a department that structurally coexists at an equal level with the other functional units. Clipsal, an Australian maker of more than 20,000 different lines of electrical accessories, is Australia's number-one brand of electrical accessories. The company has achieved international success led by its high-quality products and operations of its export department, which offers global support in many areas of its business. A strong sense of culture and teamwork has helped the brand to maintain its strong global position for many years.⁷¹

Another unique case of developing a successful export operation early after its inception is the born global firm of Logitech International. Founded in 1981, Logitech is a Swiss company that designs personal computer peripherals that enable people to effectively work, play, and communicate in the digital world. Its products include a wide variety of electronics accessories such as headsets, keyboards, and remote controls.

As demand for a firm's goods and services grows or its commitments increase due to its internationalization efforts, it develops an international structure. Many firms evolve from using their export department structure to forming an international division.

INTERNATIONAL DIVISIONS

A company's international division centralizes all of the responsibility for international operations (in many cases, all international activities also become centralized in the international division). The typical international division concentrates human resources (i.e., international expertise) into one unit and serves as the central point for all information flow related to international operations (e.g., international market opportunities, international research and development). At the same time, firms with an international division structure take advantage of economies of scale by keeping manufacturing and related functions within the domestic divisions. Firms may develop international divisions at a relatively early stage, as well as a mature stage, of their international development. However, an increasing number of firms are recognizing the importance of going global early on. As such, these firms use exporting, licensing and franchising, trading companies, contract manufacturing, and joint ventures as possible modes of international market entry.

This international division structure illustrates the importance of coordination and cooperation among domestic and international operations. Frequent interaction and strategic planning meetings are required to make this structure work effectively. In particular, firms that use an international division structure are often organized domestically on the basis of functions or product divisions, whereas the international division is organized on the basis of geography. This means that coordination and strategic alignment across domestic divisions and the international division are critical to success. At the same time, lack of coordination between domestic and international operations is commonly the most significant flaw in the international division structure.

An example of a firm that has used the international division structure to achieve worldwide success is Abbott Laboratories, a \$30 billion diversified health-care company that develops products and services that span prevention and diagnosis to treatment and cures. As international sales grew in the late 1960s, the firm added an international division to its structure. This international division structure has benefits and drawbacks for Abbott, as it does for other firms that use it.⁷²

Some argue that to offset the natural "isolation" that may result between domestic and international operations in this structure, the international division structure should be used only when a company (1) intends to market only a small assortment of goods or services internationally and (2) when foreign sales account for only a small portion of total sales. When the product assortment increases or the percentage of foreign sales becomes significant, an internationally integrated structure may be more appropriate.

INTERNATIONALLY INTEGRATED STRUCTURES

A number of different internationally integrated structures have been developed and implemented by firms in their quest to achieve global success. The three most common structures are the product division structure, the geographic area structure, and the global matrix structure. Firms with these varied structures have multiple choices for international market entry similar to international divisions (e.g., exporting, licensing and franchising, trading companies, contract manufacturing, and joint ventures). However, firms that have internationally integrated structures are the most likely to engage in direct ownership activities internationally.

The product division structure is the form used by the majority of multinational enterprises. This structure lends itself well to firms that are diversified, often driven by their

current domestic operations. Each division is a self-contained entity with responsibility for its own operations, whether it is based on a country or regional structure. However, the worldwide headquarters maintains the overall responsibility for the strategic direction of the firm, whereas the product division is in charge of implementation. Procter & Gamble has a longstanding tradition of operating as a product division structure, with leading brands such as Pampers, Tide, Ariel, Always, Pantene, Bounty, Folgers, Pringles, Charmin, Downy, Crest, and Olay.

The geographic area structure lends itself well to firms with a low degree of diversification. Under this domestically influenced functional structure, the world is divided into logical geographical areas based on the firms' operations and the customers' characteristics. Accenture, a global management consulting firm, operates worldwide largely based on a geographic area structure. Each area tends to be relatively self-contained, and integration across areas is typically via the worldwide or the regional headquarters. This structure facilitates local responsiveness, but it is not ideal for reducing global costs and transferring core knowledge across the firm's geographic units. A key issue in geographic area structures, as in almost all multinational corporations, is the need to become more regionally and globally integrated.

The global matrix structure was designed to achieve both global integration and local responsiveness. Asea Brown Boveri (ABB), a Swedish-Swiss engineering multinational, is the best-known firm to implement a global matrix structure. ABB is an international leader in power and automation technologies that enable customers to improve their performance while lowering environmental impact. Global matrix structures theoretically facilitate a simultaneous focus on realizing local responsiveness, cost efficiencies, and knowledge transfers. However, few firms can operate a global matrix well, because the structure is based on, for example, product and geographic divisions simultaneously (or a combination of any two traditional structures). This means that employees belong to two divisions and often report to two managers throughout the hierarchies of the firm. An effectively implemented global matrix structure has the benefit of being global in scope while also being nimble and responsive locally. However, a poorly implemented global matrix structure results in added bureaucracy and indecisiveness in leadership and implementation.

Emerging Trends in Marketing



Danone Discovers Opportunity in Emerging Markets

French food company Danone has long focused its energy on high-end products for the world's well-off populations. As growth slows, however, the company has made a strategic decision to focus more on selling their products in emerging markets. The trick is to offer products that consumers living on \$1 per day can afford—a difficult task for companies used to selling in more developed countries. Yet Danone has been successful at adapting products to fit these consumers' needs. For example, Danone first offered yogurt in a bottle for 10 cents

to Indonesian consumers and now sells Dolima, its 10-cent yogurt in a tube, throughout Senegal and Bangladesh. Danone executives feel Dolima on its own may become powerful both in emerging countries and in developed nations in which people have cut back on spending. The company has also seen success with its water products; in Mexico, Danone sells cups of water for 15 cents. With sales rising at 10 percent each month, Danone demonstrates that companies can profit from selling to the world's low-income consumers.^d

Customization versus Globalization of International Marketing Mixes

Like domestic marketers, international marketers develop marketing strategies to serve specific target markets. Traditionally, international marketing strategies have customized marketing mixes according to cultural, regional, and national differences. Table 8.7 provides a sample of international issues related to product, distribution, promotion, and price. For example, many soap and detergent manufacturers adapt their products to local water conditions, equipment, and washing habits. Colgate-Palmolive even devised an inexpensive plastic hand-powered washing machine for use in households that have no electricity in less-developed countries. Coca-Cola markets distinct versions of its soft drinks for the tastes of different regions of the world; it also customizes promotion to feature local people, humor, and sports teams in its advertising. Realizing that both similarities and differences exist across countries is a critical first step to developing the appropriate marketing strategy effort targeted to particular international markets. Today, many firms strive to build their marketing strategies around similarities that exist instead of customizing around differences.

For many firms, **globalization** of marketing is the goal; it involves developing marketing strategies as though the entire world (or its major regions) were a single entity: a globalized firm markets standardized products in the same way everywhere. Nike and Adidas shoes, for example, are standardized worldwide. Other examples of globalized products include electronic communications equipment, Western-style clothing, movies, soft drinks, rock and alternative music, cosmetics, and toothpaste. Sony televisions, Starbucks coffee, and many products sold at Walmart all post year-to-year gains in the world market.

For many years, organizations have attempted to globalize their marketing mixes as much as possible by employing standardized products, promotion campaigns, prices, and

globalization

The development of marketing strategies that treat the entire world (or its major regions) as a single entity

Globalization

Coca-Cola customizes its products in many markets, such as China.



TABLE 8.7 Marketing Mix Issues Internationally

Sample International Issues	
Product element	
Core product	Is there a commonality of the customer's needs across countries? What will the product be used for and in what context?
Product adoption	How is awareness created for the product in the various country markets? How and where is the product typically bought?
Managing products	How are truly new products managed in the country markets vis-à-vis existing products or products that have been modified slightly?
Branding	Is the brand accepted widely around the world? Does the home country help or hurt the brand perception of the consumer?
Distribution element	
Marketing channels	What is the role of the channel intermediaries internationally? Where is value created beyond the domestic borders of the firm?
Physical distribution	Is the movement of products the most efficient from the home country to the foreign market or to a regional warehouse?
Retail stores	What is the availability of different types of retail stores in the various country markets?
Retailing strategy	Where do customers typically shop in the targeted countries—downtown, in suburbs, or in malls?
Promotion element	
Advertising	Some countries' customers prefer firm-specific advertising instead of product-specific advertising. How does this affect advertising?
Public relations	How is public relations used to manage the stakeholders' interests internationally? Are the stakeholders' interests different worldwide?
Personal selling	What product types require personal selling internationally? Does it differ from how those products are sold domestically?
Sales promotion	Is coupon usage a widespread activity in the targeted international markets? What other forms of sales promotion should be used?
Pricing element	
Core price	Is price a critical component of the value equation of the product in the targeted country markets?
Analysis of demand	Is the demand curve similar internationally as it is domestically? Will a change in price drastically change demand?
Demand, cost, and profit relationships	What are the fixed and variable costs when marketing the product internationally? Are they similar to the domestic setting?
Determination of price	How do the pricing strategy, environmental forces, business practices, and cultural values affect price?

distribution channels for all markets. The economic and competitive payoffs for globalized marketing strategies are certainly great. Brand name, product characteristics, packaging, and labeling are among the easiest marketing mix variables to standardize; media allocation, retail outlets, and price may be more difficult. In the end, the degree of similarity among the various environmental and market conditions determines the feasibility and degree of globalization. A successful globalization strategy often depends on the extent to which a firm is able to implement the idea of “think globally, act locally.”⁷³ Even take-out food lends itself to globalization: McDonald’s, KFC, and Taco Bell restaurants satisfy hungry customers in both hemispheres, although menus may be altered slightly to satisfy local tastes. When Dunkin’ Donuts entered the Chinese market, it served coffee, tea, donuts, and bagels, just as it does in the United States, but in China, the donut case also includes items like green tea and honeydew melon donuts and mochi rings, which are similar to donuts but are made with rice flour.⁷⁴

International marketing demands some strategic planning if a firm is to incorporate foreign sales into its overall marketing strategy. International marketing activities often require customized marketing mixes to achieve the firm’s goals. Globalization requires a total commitment to the world, regions, or multinational areas as an integral part of the firm’s markets; world or regional markets become as important as domestic ones. Regardless of the extent to which a firm chooses to globalize its marketing strategy, extensive environmental analysis and marketing research are necessary to understand the needs and desires of the target market(s) and successfully implement the chosen marketing strategy. A global presence does not automatically result in a global competitive advantage. However, a global presence generates five opportunities for creating value: (1) to adapt to local market differences, (2) to exploit economies of global scale, (3) to exploit economies of global scope, (4) to mine optimal locations for activities and resources, and (5) to maximize the transfer of knowledge across locations.⁷⁵ To exploit these opportunities, marketers need to conduct marketing research and work within the constraints of the international environment and regional trade alliances, markets, and agreements.

CHAPTER REVIEW

1 Understand the nature of global marketing strategy.

International marketing involves developing and performing marketing activities across national boundaries. International markets can provide tremendous opportunities for growth and renewed opportunity for the firm.

2 Analyze the environmental forces that affect international marketing efforts.

A detailed analysis of the environment is essential before a company enters an international market. Environmental aspects of special importance include sociocultural; economic, political, legal, and regulatory; social and ethical; competitive; and technological forces. Because marketing activities are primarily social in purpose, they are influenced by beliefs and values regarding family, religion, education, health, and recreation. Cultural differences may affect marketing negotiations, decision-making behavior, and product adoption and use. A nation's economic stability and trade barriers can affect marketing efforts. Significant trade barriers include import tariffs, quotas, embargoes, and exchange controls. Gross domestic product (GDP) and GDP per capita are common measures of a nation's economic standing. Political and legal forces include a nation's political system, laws, regulatory bodies, special-interest groups, and courts. In the area of ethics, cultural relativism is the concept that morality varies from one culture to another and that business practices are therefore differentially defined as right or wrong by particular cultures. In addition to considering the types of competition and the types of competitive structures that exist in other countries, marketers also need to consider the competitive forces at work and recognize the importance of the global customer who is well informed about product choices from around the world. Advances in technology have greatly facilitated international marketing.

3 Understand several important international trade agreements.

Various regional trade alliances and specific markets create both opportunities and constraints for companies engaged in international marketing. These include the North American Free Trade Agreement, European Union, Southern Common

Market, Asia-Pacific Economic Cooperation, and World Trade Organization.

4 Identify methods of international market entry.

There are several ways to enter international marketing. Importing (the purchase of products from a foreign source) and exporting (the sale of products to foreign markets) are the easiest and most flexible methods. Marketers may employ a trading company, which links buyers and sellers in different countries but is not involved in manufacturing and does not own assets related to manufacturing. Licensing and franchising are arrangements whereby one firm pays fees to another for the use of its name, expertise, and supplies. Contract manufacturing occurs when a company hires a foreign firm to produce a designated volume of the domestic firm's product to specification, and the final product carries the domestic firm's name. Joint ventures are partnerships between a domestic firm and a foreign firm or government. Strategic alliances are partnerships formed to create competitive advantage on a worldwide basis. Finally, a firm can build its own marketing or production facilities overseas. When companies have direct ownership of facilities in many countries, they may be considered multinational enterprises.

5 Examine various forms of global organizational structures.

Firms develop their international marketing strategies and manage their marketing mixes by developing and maintaining an organizational structure that best leverages their resources and core competencies. Three basic structures of international organizations include export departments, international divisions, and internationally integrated structures (e.g., product division structures, geographic area structures, and matrix structures).

6 Examine the use of the marketing mix internationally.

Although most firms adjust their marketing mixes for differences in target markets, some firms standardize their marketing efforts worldwide. Traditional full-scale international marketing involvement is based on products customized according to cultural, regional, and national

differences. Globalization, however, involves developing marketing strategies as if the entire world (or regions of it) were a single entity; a globalized firm markets standardized products in the

same way everywhere. International marketing demands some strategic planning if a firm is to incorporate foreign sales into its overall marketing strategy.

ONLINE RESOURCES

Please visit the student website at www.cengagebrain.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

international marketing 200	Southern Common Market (Mercosur) 215	licensing 219
gross domestic product (GDP) 204	Asia-Pacific Economic Cooperation (APEC) 215	contract manufacturing 220
import tariff 206	World Trade Organization (WTO) 217	outsourcing 220
quota 206	General Agreement on Tariffs and Trade (GATT) 217	offshoring 220
embargo 206	dumping 217	offshore outsourcing 221
exchange controls 206	importing 218	joint venture 221
balance of trade 206	exporting 218	strategic alliance 222
cultural relativism 208	trading company 219	direct ownership 222
North American Free Trade Agreement (NAFTA) 212		multinational enterprise 222
European Union (EU) 213		globalization 227

ISSUES FOR DISCUSSION AND REVIEW

1. How does international marketing differ from domestic marketing?
2. What factors must marketers consider as they decide whether to engage in international marketing?
3. Why are the largest industrial corporations in the United States so committed to international marketing?
4. Why do you think this chapter focuses on an analysis of the international marketing environment?
5. If you were asked to provide a small tip (or bribe) to have a document approved in a foreign nation where this practice is customary, what would you do?
6. How will NAFTA affect marketing opportunities for U.S. products in North America (the United States, Mexico, and Canada)?
7. What should marketers consider as they decide whether to license or enter into a joint venture in a foreign nation?
8. Discuss the impact of strategic alliances on international marketing strategies.
9. Contrast globalization with customization of marketing strategies. Is one practice better than the other?
10. What are some of the product issues that you need to consider when marketing luxury automobiles in Australia, Brazil, Singapore, South Africa, and Sweden?

MARKETING APPLICATION

1. To successfully implement marketing strategies in the international marketplace, a marketer must understand the complexities of the global marketing environment. Which environmental forces (sociocultural, economic, political/legal/regulatory, ethical, competitive, or technological) might a marketer need to consider when marketing the following products in the international marketplace, and why?
 - a. Barbie dolls
 - b. Beer
 - c. Financial services
 - d. Television sets
2. Many firms, including Procter & Gamble, FedEx, and Occidental Petroleum, wish to do business in eastern Europe and in the countries that were once part of the former Soviet Union. What events could occur that would make marketing in these countries more difficult? What events might make it easier?
3. This chapter discusses various organizational approaches to international marketing. Which would be the best arrangements for international marketing of the following products, and why?
 - a. Construction equipment
 - b. Cosmetics
 - c. Automobiles

4. Procter & Gamble has made a substantial commitment to foreign markets, especially in Latin America. Its actions may be described as a “globalization of marketing.” Describe how a shoe manufacturer (e.g., Wolverine World Wide) would go from domestic marketing to limited exporting, to international marketing, and finally to a globalization of marketing. Give examples of some activities that might be involved in this process.

ONLINE EXERCISE

5. Founded in 1910 as Florists’ Telegraph Delivery, FTD was the first company to offer a “flowers-by-wire” service. FTD does not deliver flowers itself, but it depends on local florists to do it. In 1994, FTD expanded its toll-free telephone-ordering service by establishing a website. Visit the site at www.ftd.com.
 - a. Click on “International Shipping.” Select a country to which you would like to send flowers. Summarize the delivery and pricing information that would apply to that country.
 - b. Determine the cost of sending fresh-cut seasonal flowers to Germany.
 - c. What are the benefits of this global distribution system for sending flowers worldwide? What other consumer products could be distributed globally through the Internet?

DEVELOPING YOUR MARKETING PLAN

When formulating marketing strategy, one of the issues a company must consider is whether or not to pursue international markets. Although international markets present increased marketing opportunities, they also require more complex decisions when formulating marketing plans. To assist you in relating the information in this chapter to the development of your marketing plan, focus on the following:

1. Review the environmental analysis that was completed in Chapter 3. Extend the analysis for each of the seven factors to include global markets.
2. Using Figure 8.1 as a guide, determine the degree of international involvement that is appropriate for your product and your company.
3. Discuss the concepts of customization and globalization for your product when moving to international markets. Refer to Table 8.7 for guidance in your discussion.

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

LONELY PLANET PROVIDES GUIDANCE TO LONELY EXPLORER

Lonely Planet has been global since before it was even a company—in its audience, its scope, and its foundation. The now ubiquitous guidebook brand got its start in 1973 when Brit Tony Wheeler and his wife, Maureen, holed up in Australia to write a pamphlet on their experiences traveling in Asia. The couple met in their native Britain, found that they shared a love of adventure, and got married soon thereafter. For their honeymoon, they chose to make a trip that no one at the time believed was possible—a journey from Britain across Europe and Asia via land all the way to Australia. They made it, but by that time, they were stuck in Australia with 27 cents between the two of them. Tony made the best of the situation by writing the 94-page *Across Asia on the Cheap*, which sold 8,500 copies. From this suitably adventurous start, Lonely Planet ballooned into one of the powerhouses of the growing guidebook and phrasebook industry, with around 500 titles covering 118 countries. Lonely Planet now represents one-quarter of all English-language guidebooks sold in the world and has annual revenues in excess of \$75 million.

The company has offices in London and Oakland, California, with its headquarters in Melbourne. It employs 450 office staff and around 200 authors. Thanks to these contributors from dozens of different countries, the company has a global scope and a global perspective, which helps the company successfully market worldwide. The huge variety of languages, cultures, and interests across their consumer base makes marketing and developing a coherent brand image difficult. To cope with these hurdles, Lonely Planet works on maintaining a balance between consistency in branding and customizing marketing to suit specific target markets.

In 2007, the Wheelers finally relinquished control of the company when they sold it to BBC Worldwide, which is the commercial branch of the British Broadcasting Company. The addition of the BBC's extensive network of distribution channels has helped Lonely Planet to market itself more successfully and to branch into complementary business areas such as Lonely Planet Images, Lonely Planet Television, Lonely Planet Foreign Rights Team, Lonely Planet Business Solutions unit, and Lonely Planet Foundation (which contributes 5 percent of all profits to international charities and has established a carbon offset program for printing and the travels of all employees). From the start, one of the fundamental tenets of the Lonely Planet brand has been that travel can truly change the world and make it a better place. Through the Lonely Planet Foundation, the Wheelers have tried to make profound differences

in the places they visit. Their far-reaching message is being heard loud and clear, as evidenced by the more than 5 million unique visitors clicking on lonelyplanet.com each month.

This marketing strategy of selective customization, combined with relentless fact checking and updating, along with a focus on hiring the best and most knowledgeable travel writers, has earned Lonely Planet a reputation for quality. Lonely Planet books are not only popular; they are considered by many to be the definitive guidebooks. In fact, Jay Garner, the first American administrator in Iraq, considers Lonely Planet such an authority on global travel that he used the book *Lonely Planet Iraq* to develop a list of historical sites worth saving. Another nod to the success of the brand is the fact that in Asia, imitation Lonely Planet guidebooks are now sold alongside imitation Gucci and Chanel handbags and Rolex watches.

No matter what criticisms people may have of Lonely Planet, this single guidebook brand has been responsible for the soaring popularity of adventure tourism worldwide. Because of Lonely Planet, there are surf camps in El Salvador, foreign-owned luxury resorts in Nicaragua, and remote villages in the heights of the Himalayas with economies based around tourism—monuments to the success of its marketing strategy. Lonely Planet continues its trek toward boundless success, due largely to the organization's clear vision of its target market. The Lonely Planet traveler is willing to embrace foreign food and culture but still wants to do it comfortably and cheaply, if possible. The company reaches its market through smart marketing and promotion strategies that balance a recognizable brand with customization to accommodate local tastes. Lonely Planet has never forgotten that there really is no such thing as global—that the world consists of thousands of different local populations. And Lonely Planet, by knowing clearly who comprises its market and by smart marketing strategies, has grown from a pamphlet written in a cheap hostel to a huge global brand loved by millions of travelers the world over.⁷⁶

QUESTIONS FOR DISCUSSION

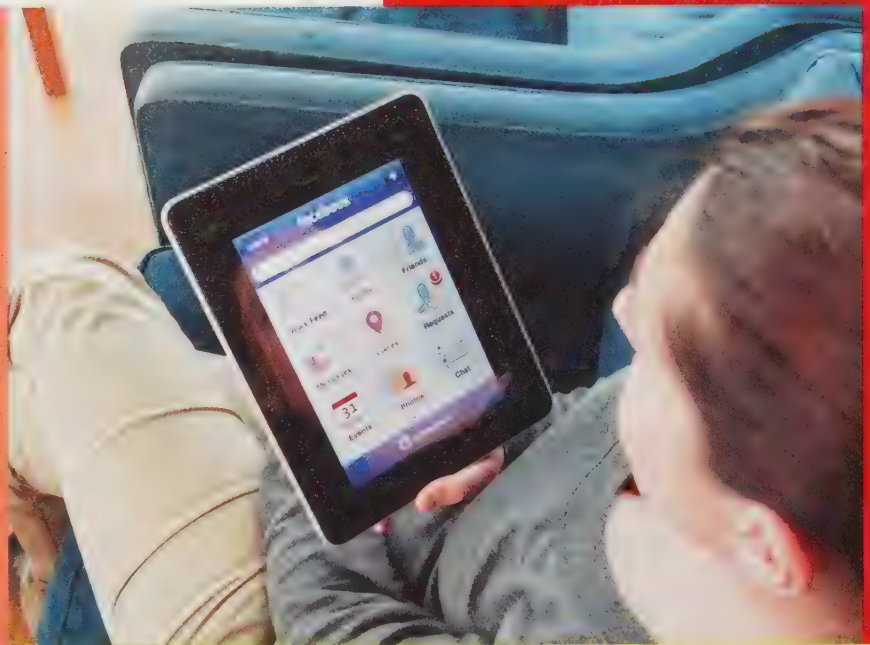
1. Why is Lonely Planet a global success?
2. How has Lonely Planet been able to provide and market guidebooks that are useful across languages and cultures?
3. How could Lonely Planet guidebooks help marketers to develop effective marketing strategies in targeted foreign markets?

CHAPTER 9

E-Marketing, Digital Media, and Social Networking

OBJECTIVES:

- 1 Define *digital media* and *electronic marketing*, and recognize their increasing importance in strategic planning.
- 2 Understand the characteristics of digital media and electronic marketing—addressability, interactivity, accessibility, connectivity, control—and how they differ from traditional marketing activities.
- 3 Identify and understand the role of digital media in a marketing strategy and how each type of digital media can be used as an effective marketing tool.
- 4 Understand and identify how digital media affect the marketing mix and marketing research techniques.
- 5 Identify legal and ethical considerations in digital media and electronic marketing.



MARKETING INSIGHTS

Look Out, Facebook: Niche Social Networking Sites Draw Advertisers

If you think advertising on social networks is limited to sites like Twitter and Facebook, think again! The rise of social networking has led to hundreds of niche social networks dedicated to particular subjects for particular market segments, such as moms, pet-lovers, and teenagers. In just one month, approximately 280 million people logged onto social networks other than Twitter or Facebook.

Advertisers are taking notice. It has been estimated that more than 25 percent of social media advertising spending is for sites outside of the two largest social networks. For example, Frontline promoted its flea collars through a game on the dog-lover site Dogster, and Medicare coverage provider Humana advertised on baby-boomer social network Eons. MTV and Six Flags have advertised on myYearbook to target the more challenging youth demographic.

This leads to perhaps the biggest advantage that niche social networking has over larger sites: the ability to target specific areas. Although Facebook and Twitter have a large reach worldwide, the differences among their users make it more difficult to target particular segments. On the other hand, smaller social networks address the specific needs of a specific group of people. This provides companies with opportunities to hone in on niche market segments.

According to some marketers, this accessibility to specific markets allows for a more accurate target approach. Yet better accuracy comes at a price. Niche networks often charge higher ad prices than other sites. However, for many marketers, the greater ability to reach their intended audiences is well worth the cost.¹

Since the 1990s, the Internet and information technology have dramatically changed the marketing environment and the strategies that are necessary for marketing success. Digital media have created exciting opportunities for companies to target specific markets more effectively, develop new marketing strategies, and gather more information about customers. Using digital media channels, marketers are better able to analyze and address consumer needs.

One of the defining characteristics of information technology in the 21st century is accelerating change. New systems and applications advance so rapidly that a chapter on this topic has to strain to incorporate the possibilities of the future. For example, when Google first arrived on the scene in 1998, a number of search engines were fighting for dominance, including WebCrawler, Lycos, Magellan, Infoseek, and Excite. Google, with its fast, easy-to-use format, soon became the number-one search engine. Today, Google provides additional competition to many industries, including advertising, newspaper, mobile phone, book publishing, and social networking. However, Google must constantly innovate to keep its competitive advantage due to competition from sites such as Yahoo! and Baidu. The Chinese search engine Baidu is gaining ground as the fifth-largest “pure-play” Internet company in the world and has the majority of the Chinese Internet market.² As you can see, the environment for marketing is changing rapidly based on these factors, as well as unknown future developments within information technology.

In this chapter, we focus on digital marketing strategies, particularly new communication channels such as social networks, and discuss how consumers are changing their information searches and consumption behaviors to fit with these emerging technologies and trends. Most importantly, we analyze how marketers can use new media to their advantage to better connect with consumers, gather more information about their target markets, and convert this information into successful marketing strategies.

Growth and Benefits of E-Marketing

Before we move on, we must first provide a definition of digital media. **Digital media** are electronic media that function using digital codes—when we refer to digital media, we are referring to media available via computers, cellular phones, smartphones, and other digital devices that have been released in recent years. A number of terms have been coined to describe marketing activities

digital media

Electronic media that function using digital codes; when we refer to digital media, we are referring to media available via computers, cellular phones, smartphones, and other digital devices that have been released in recent years

Digital Marketing

Telescope assists marketers with their digital marketing strategies.

on the Internet. **Digital marketing** uses all digital media, including the Internet and mobile and interactive channels, to develop communication and exchanges with customers. In this chapter, we focus on how the Internet relates to all aspects of marketing, including strategic planning. Thus, we use the term **electronic marketing**, or **e-marketing**, to refer to the strategic process of distributing, promoting, pricing products, and discovering the desires of customers using digital media and digital marketing. Our definition of e-marketing goes beyond the Internet and also includes mobile phones, banner ads, digital outdoor marketing, and social networks.

The phenomenal growth of the Internet has provided unprecedented opportunities for marketers to forge interactive relationships with consumers. As the Internet and digital communication technologies have advanced, they have made it possible to target markets more precisely and reach markets that were previously inaccessible. Because of its ability to enhance the exchange of information between the marketer and the customer, the Internet has become an important component of firms' marketing strategies. As the world of digital media continues to develop, Internet marketing has been integrated into strategies that include all digital media, including television advertising and other mobile and interactive media that do not use the Internet (advertising media are discussed in detail in Chapter 17). In fact, marketers are using the term *digital marketing* as a catch-all for capturing all digital channels for reaching customers. This area is evolving quickly, and the digital world is still in an early stage of integration into marketing strategy.³

One of the most important benefits of e-marketing is the ability of marketers and customers to share information. Through websites, social networks, and other digital media, consumers can learn about everything they consume and use in life. The Internet has changed the way marketers communicate and develop relationships. Today's marketers can use the Internet to form relationships with a variety of stakeholders, including customers, employees, and suppliers. Many companies use not just e-mail and mobile phones, but also social networking, wikis, video sharing, podcasts, blogs, videoconferencing, and other technologies to coordinate activities and communicate with employees. Modes of communication are changing as well, as shown in Table 9.1. For instance, many spend more time sending text messages than actually talking on their cell phones. Among those who text on their cell phones, men send an average of 555 text messages monthly, while women send 716 text messages.⁴ Other digital forms of communication merge two or more technologies. Twitter, considered both a social network and micro blog, illustrates how these digital technologies are combined to create new communication opportunities.

digital marketing

Uses all digital media, including the Internet and mobile and interactive channels, to develop communication and exchanges with customers

electronic marketing (e-marketing)

The strategic process of distributing, promoting, pricing products, and discovering the desires of customers using digital media and digital marketing

TABLE 9.1 Volume of Traffic on the Internet

Application	Traffic Share (%)
Data	28.1
Online video	26.2
P2P file sharing	24.9
Other file sharing	18.7
Voice and video communications	1.7
PC gaming	0.7
E-mail and instant messaging	0.3
Gaming console	0.2

Source: Cisco, reproduced in *Bloomberg Businessweek Year in Review*, 2010, p. 24.

Social networking in particular is changing the dynamics of marketing and business communication. Nielsen Marketing Research finds that consumers spend more time on social networking sites than on e-mail, and the gap is growing. The most avid online social networkers are Australians, followed by British, Italians, and Americans.⁵ Because of the way they facilitate communications while significantly reducing costs, these new information technologies represent a tremendous opportunity for any industry or activity that depends on the flow of information.

For many businesses, engaging in digital and online marketing activities is essential to maintaining competitive advantages. Increasingly, small businesses can use digital media to develop strategies to reach new markets and access inexpensive communication channels. In addition, large companies like Walmart utilize online catalogs and company websites to supplement their brick-and-mortar stores. At the other end of the spectrum, companies like Amazon.com, which lack physical stores and sell products solely online, are emerging to challenge traditional brick-and-mortar businesses. Social networking sites such as Facebook are advancing e-marketing by providing features such as developing its own currency to purchase products, send gifts, and engage in the entire shopping experience.⁶ Finally, some corporate websites provide feedback mechanisms through which customers can ask questions, voice complaints, indicate preferences, and otherwise communicate about their needs and desires.

Characteristics of E-Marketing

One of the biggest mistakes a marketer can make when engaging in digital marketing is to treat it like a traditional marketing channel. Digital media offer a whole new dimension to marketing that marketers must consider when concocting their companies' marketing strategies. Some of the characteristics that distinguish online media from traditional marketing include addressability, interactivity, accessibility, connectivity, and control.

ADDRESSABILITY

Digital media technology makes it possible for visitors on a website to identify themselves and provide information about their product needs and wants before making a purchase. The ability of a marketer to identify customers before they make a purchase is called **addressability**. Many websites encourage visitors to register to maximize their use of the site or to gain access to premium areas. Social networks are also enhancing addressability. A **social network** is defined as "a web-based meeting place for friends, family, coworkers and peers that allows users to create a profile and connect with other users for the purposes that range from getting acquainted, to keeping in touch, to building a work related network."⁷ Addressability on social networks is achieved through their ability to provide a meeting ground for individuals with similar interests and consumption patterns. On social networks, members register varying degrees of personal information; many users also post more information such as likes and dislikes, hobbies, and photographs. By connecting with other consumers on these social networks, companies are able to gain more access to consumer preferences.

An addressable channel means the marketer knows who the customer is and can specifically address that person, rather than using a more generic appeal as occurs in traditional personal interactions. From the standpoint of integrated marketing communications, this creates the opportunity for customization of promotions. Addressability provides the opportunity for the implementation of relationship marketing. In addition, there are the possibilities of valuing the customer with financial metrics, developing new promotions, and increasing the seller's share of the customer's purchase.

The service dimension of products can also be enhanced through e-marketing. Firms can cut costs and involve the customer in the production or operations activities that provide

addressability

The ability of a marketer to identify customers before they make a purchase

social network

Web-based meeting place for friends, family, coworkers, and peers that allows users to create a profile and connect with other users for purposes that range from getting acquainted, to keeping in touch, to building a work-related network

FREE FOR CURRENT SUBSCRIBERS
PRINT, TABLET, SMARTPHONE & WEB

*Now includes the NFL

**ALL ACCESS... ALL THE TIME...
 ALL ON ONE ACCOUNT...**

GET IT ALL FOR ONE PRICE. SI.COM/MAGAZINE

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Characteristics of E-Marketing

Sports Illustrated offers access for all mobile technology for one subscription price, promoting online subscription or renewal.

service. Addressability greatly facilitates relationship marketing because it enables customer engagement to create product innovation. Marketers get to know their customers, hear their desires, adapt products to meet those desires, and thereby turn customers into brand advocates. Hyundai took advantage of the most recent recession by creating a Customer Assurance Program. The program helped to bolster vehicle sales in an uncertain economic climate by allowing buyers to walk away from a purchased vehicle in times of financial challenges. After implementing the program, Hyundai saw sales increase by 14 percent.⁸ Consumers who wanted to take advantage of the Hyundai Assurance Program had to apply online. To promote the program, Hyundai developed a Facebook page with games and other interactive features that allow potential customers to develop a relationship with Hyundai.

Addressability represents the ultimate expression of the marketing concept. Armed with knowledge about individual customers gleaned from the Web, particularly online social networking sites, marketers can tailor marketing mixes more precisely to target customers with narrow interests. Addressability enables marketers to track website visits and online buying activity, which makes it easier for them to accumulate data and target individual customers to enhance future marketing efforts. Netflix uses addressability to store data about what movies customers have watched and their movie ratings, enabling the company to make recommendations the next time those customers visit the site.

INTERACTIVITY

Another distinguishing characteristic of social networks is **interactivity**, which allows customers to express their needs and wants directly to the firm in response to its marketing communications. Traditional marketing usually involves one-way forms of communication. The marketer contacts the customer through an advertising message, and if the customer has questions or concerns, he or she contacts company representatives by phone or other feedback mechanisms. This sometimes lengthy process requires companies to employ service representatives and/or call centers to interact with customers. Customers often experience a waiting period of some duration from between the time they issue the request to when they receive an answer. (Think of how often you are put on hold when you contact an organization by phone.) Too much waiting can result in customer dissatisfaction.

As an alternative to traditional marketing, interactivity focuses on the kinds of digital media that can make interpersonal connections possible. By utilizing appropriate digital media, companies can facilitate interactivity and enable a conversation with the customer. Features like interactive links on websites, for example, allow Internet users to view marketing messages at their own pace, which is different from the more “intrusive” advertisements like television commercials or sales calls. Digital media like blogs and some social networks allow marketers to interact with prospective customers in real time (or a close approximation of it). The one-sided communication common to traditional marketing channels is being replaced with interactive conversations between customer and marketer. Thus, digital

interactivity

Allows customers to express their needs and wants directly to the firm in response to its marketing communications

communication can move marketing away from being an intrusion into developing relationships through greater interaction between business and consumer.

Interactivity helps marketers maintain high-quality relationships with existing customers by shaping customer expectations and perceptions. Additionally, digital media has created a myriad of relationships. Where traditionally a relationship existed between a company and a consumer, the Internet now allows consumers to form relationships with one another as well—through online chats, blogs, and electronic word of mouth.⁹ By providing information, ideas, and a context for interacting with other customers, interactive marketers can enhance customers' interest in and involvement with their products.

ACCESSIBILITY

An extraordinary amount of information is available on the Internet, and users can access this information with a few simple clicks. The ability to obtain digital information is referred to as **accessibility**. Because customers can access in-depth information about competing products, prices, reviews, and so forth, they are much better informed about a firm's products and their relative value than ever before.

Mobile devices such as smartphones, mobile computing devices, and PDAs (personal digital assistants) allow customers to leave their desktops and access digital networks from anywhere. Thanks to the popularity of smartphones and PDAs, one of the fastest-growing areas in mobile technology is the creation of applications (known as *apps*) that help consumers to access more information about businesses. The paint manufacturer Benjamin Moore & Co. has an iPhone app that allows users to match colors in photographs with shades in Benjamin Moore's 3,300-hue color system.¹⁰ The most important feature of apps is the convenience and cost savings they offer to the consumer. Certain apps, for instance, allow consumers to scan a product's barcode and then compare it with the prices of identical products in other stores.

To remain competitive, companies are beginning to use mobile marketing to offer additional incentives to consumers, with some success. The automotive services company Jiffy Lube, for instance, used coupons offered over mobile devices for one of its franchises. The company estimated that 50 percent of the new customers that came to that franchise did so as a result of its mobile marketing.¹¹ Another application that marketers are finding useful is the QR scanning app. You might have noticed the black-and-white squares that sometimes appear in magazines, posters, and storefront displays. These squares, called QR codes, contain messages not visible to the naked eye. To read the messages, smartphone users have to first download the QR scanning application. They can then open their smartphones and scan the black-and-white square. The QR scanning app recognizes the code and opens the link, video, or image on the phone's screen. Marketers are using QR codes to promote their companies and offer consumer discounts.¹² Mobile marketing is becoming an appealing promotional tool for many marketers, so much so that U.S. mobile ad spending is estimated to increase to more than \$2.5 billion by 2014.¹³ Figure 9.1 shows companies' top objectives for mobile marketing.

Accessibility does not only refer to the consumer's ability to obtain information. A firm can also use accessibility to its advantage. Many companies are adopting a digital media philosophy of "open innovation." Firms can go to sites such as GeniusRocket.com or Innocentive.com to request ideas for new products. For example, rather than go to an advertising agency, some firms have posted online offerings of \$1,000 for a winning logo design. One firm offered \$10,000 for innovative ways to communicate male grooming ideas to target markets.¹⁴

Digital media requires Internet marketers to be creative. Hewlett-Packard Co., for instance, has conducted research to find new ways to adapt its website so that customers can access it through mobile devices like cell phones. Marketers must be increasingly diligent and innovative to attract Internet users, requiring a level of creativity that extends beyond traditional marketing media.

accessibility

The ability to obtain digital information

FIGURE 9.1 Companies' Top Objectives for Mobile Marketing

Source: Q3 2010 Global Mobile Maturity Online Survey, Forrester Research Inc., "How Mature Is Your Mobile Strategy?" (October 2010). Reprinted by permission.

CONNECTIVITY

Connectivity is one of the key contributions of social networking, connecting customers with marketers as well as with other customers. It involves the use of digital networks to provide linkages between information providers and users. Connectivity has been made easier by Facebook, the world's largest online social network, and other global sites such as Myspace, LinkedIn, and Twitter. Many countries have their own much smaller social networking sites as well. Orkut is a Google-owned service that has gained popularity in India and Brazil. In China, QQ is a major social networking site; some of its counterparts are VKONTAKTE in Russia and CyWorld in South Korea. Muxlim targets the world's Muslims, and research-GATE connects scientists and researchers. Being a 21st-century phenomenon—and, therefore, a fairly new development in marketing—the social networking industry has grown by leaps and bounds. One estimate by investment bank ThinkEquity suggests that revenue from social networking games in America could surpass \$2 billion in 2012.¹⁵

Marketers are drawn, in part, to social networks because of the size and diversity of the audience. The Facebook audience is larger than the audience for any television network that has ever existed throughout history, and Facebook attracts users from all over the world. Using Facebook and other online social networking sites, marketers can more easily target communication to specific markets based on age, gender, interest, and lifestyle than they can using more traditional marketing media. Consumers can connect and express their interests to one another, and marketers can use social networking sites to gather information, advertise, and encourage customer engagement.¹⁶

connectivity

Use of digital networks to provide linkages between information providers and users

control

Customers' abilities to regulate the information they view and the rate and sequence of their exposure to that information

CONTROL

Control refers to customers' abilities to regulate the information that they view and the rate and sequence of their exposure to that information. The Internet is sometimes referred to as a *pull* medium because users determine which websites they are going to view; the marketer has only



Control

Companies like Multiply use social media as a control mechanism to help consumers establish connections with desirable groups and products.

limited ability to control the content to which users are exposed, and in what sequence. Digital media like blogs and social networks have endowed users with even greater power because they can more easily associate themselves with certain groups and can actively rate products and services. Marketers may fear that their power is being undermined by digital media because digital media blur the line between marketer and consumer. Digital media certainly require marketers to approach their jobs differently compared with traditional marketing.¹⁷

Although our definition of control refers mainly to consumers, businesses can use digital media as control mechanisms also. *Enterprise 2.0* is a term coined to describe firms' efforts to use cutting-edge technology associated with social networks and blogs to assist in workplace connections. It involves software modifications to contribute to traditional software platforms used by large companies. Companies like the telecom firm Alcatel Lucent have designed their own internal social networks for in-house networking. By using the company's own social network, employees can find data faster. Internal social networks are a great way to capture knowledge and identify experts on different subjects within an organization.¹⁸

Other companies are using the power of the consumer to their advantage. While negative ratings and reviews are damaging to a company, positive customer feedback is free publicity that often helps the company more than corporate messages do. Because consumer-generated content appears more authentic than corporate messages, it can go far in increasing a company's credibility. Many firms, such as PepsiCo, launch digital marketing campaigns with a social responsibility angle in order to help bolster their reputations. PepsiCo's Pepsi sought to engage consumers and make them feel closer to its products by utilizing community outreach online. Its Pepsi Refresh Project calls for consumer ideas for socially responsible initiatives—on which other consumers can vote to determine which idea Pepsi will fund.¹⁹

Types of Consumer-Generated Marketing and Digital Media

While e-marketing has generated exciting opportunities for producers of products to interact with consumers, it is essential to recognize that digital media are more consumer-driven than traditional media. Consumer-generated material is having a profound effect

on marketing. As the Internet becomes more accessible worldwide, consumers are creating and reading consumer-generated content like never before. Social networks and advances in software technology, such as enterprise 2.0, provide an environment for marketers to utilize consumer-generated digital media.

Two major trends have caused consumer-generated information to gain importance:

1. The increased tendency of consumers to publish their own thoughts, opinions, reviews, and product discussions through blogs or digital media.
2. Consumers' tendencies to trust other consumers over corporations. Consumers often rely on the recommendations of friends, family, and fellow consumers when making purchasing decisions.

By understanding where online users are likely to express their thoughts and opinions, marketers can use these forums to interact with consumers, address problems, and promote their companies. Types of digital media in which Internet users are likely to participate include social networking sites, blogs, wikis, video-sharing sites, podcasts, virtual reality sites, mobile applications, and more.

SOCIAL NETWORKS

Social networks have evolved quickly in a short period of time (see Table 9.2 for the launch dates of major social networking sites). Social networks are widely used by marketers, and marketing strategies are utilizing social networking sites to develop relationships with customers. Each wave of social network has become increasingly sophisticated. Today's social networks offer a multitude of consumer benefits, including musical downloads, apps, forums, games, and more. Marketers are thereby using these sites and their popularity with consumers to promote products, handle questions and complaints, and provide information to assist customers in buying decisions.

TABLE 9.2 Major Social Networking Sites

Social Network	Founded	Popularity
Facebook	2004	More than 750 million users worldwide
Twitter	2006	200 million registered users
Myspace	2003	Social entertainment site with a variety of music and video content
LinkedIn	2003	More than 120 million members worldwide
YouTube	2005	Most popular video-sharing site
Hi5	2003	Most popular social networking site in Mexico
Skyrock	2002	Number-one social networking site in France
Friendster	2002	Strong user base in Asia
51.com	2005	Largest social networking site in China
Orkut	2004	Very popular in Brazil and India

Sources: Jonathon Strickland, "Top 10 Social Networking Sites," *Discovery News*, <http://news.discovery.com/tech/top-ten-social-networking-sites.html> (accessed January 26, 2011); "Looking near and far for Myspace buyer," *UPI*, April 9, 2011, www.upi.com/Business_News/2011/04/09/Looking-near-and-far-for-Myspace-buyer/UPI-37161302361134/ (accessed April 12, 2011).

As the number of social network users increases, interactive marketers are finding new opportunities to reach out to consumers in new target markets. MyYearBook is a social networking site that offers teenagers a forum in which to write on particular subjects important to teens, including sensitive topics facing today's younger generation. For advertisers, this particular site is an opportunity to reach out to teens and young adults, a demographic that is difficult to reach with traditional marketing. Advertisers from Nikon and Paramount Pictures have made deals to advertise through the site.²⁰ Other social networking sites also offer ways for marketers to promote their companies. More information on how marketers use social networks is provided in later sections of this chapter.

Internet users join social networks for many reasons, from chatting with friends to professional networking. An estimated two-thirds of consumers in the United States have visited social networks or blogs.²¹ Social networks have become very popular in other countries as well, as mentioned earlier in this chapter. One in three South Korean and one in five Japanese Internet users participate in social networks.²² As social networks evolve, both marketers and the owners of social networking sites are realizing the incredible opportunities such networks offer—an influx of advertising dollars for social networking owners and a large reach for the advertiser. As a result, marketers have begun investigating and experimenting with promotion on social networks.

An important question relates to how social media sites are adding value to the economy. Marketers at companies like Ford and Zappos, for instance, are using social media to promote products and build consumer relationships. Most corporations are supporting Facebook pages and Yammer accounts for employees to communicate across departments and divisions. Professionals such as professors, doctors, and engineers also share ideas on a regular basis. Even staffing organizations use social media, bypassing the traditional email and telephone channels. While billions of dollars in investments are being funneled into social media, it may be too early to assess the exact economic contribution of social media to the entire economy.²³

Facebook

When Facebook surpassed Myspace in its number of members, it became the most popular social networking site in the world.²⁴ Nearly one-third of all Internet users have visited the site.²⁵ Internet users create Facebook profiles and then search the network for people with whom to connect. Facebook markets to parents and grandparents as well as to teenagers. In fact, the fastest-growing group on Facebook is that of women 55 and over.²⁶

For this reason, many marketers are turning to Facebook to market products, interact with consumers, and take advantage of free publicity. It is possible for consumers to become “fans” of major companies like Procter & Gamble (P&G) by clicking on the “Like” icon on its Facebook page. Companies are also using Facebook to generate awareness and repeat visits. For instance, Allstate held a contest on Facebook that encouraged fans to revisit the company's Facebook page for prizes. Each day during the contest, Allstate would post a picture on its page and invite fans to “tag” themselves into the picture. The first “taggers” would be eligible to win a Ford Fusion Hybrid. Everyone else who tagged themselves would be eligible to win one of 440 Visa gift cards.²⁷ This contest created excitement for the product, a sense of personal involvement, and greater recognition of the brand.



Entrepreneurship in Marketing

Houlihan's Creates “Houlifans”

National restaurant chain Houlihan's is busy cultivating “Houlifans” through its own social network. In 2008, the company of 100 restaurants was struggling to compete against chains like Applebee's. Its answer was to launch a social network dubbed HQ. Houlihan's invited individuals from its database to become members. The company was searching for honest feedback along with socially active individuals inclined to visit the restaurant with friends on a weekly basis. Today, 10,500 Houlifans are invited to take part in exclusive tastings and other events. They also receive special offers and incentives to share information with friends.

Houlifan feedback has been responsible for reviving menu items, increasing sales, and helping Houlihan's to create a hip image that attracts a younger crowd. At least 25 percent of HQ invitations are sent to consumers aged 21 to 31. The company sees this group as a critical market with which to engage. Thanks to HQ's success, the company is also branching out to sites such as Facebook and Foursquare.³

Social networking sites are also useful for small businesses. Hansen Cakes in Beverly Hills uses interactive marketing on a social networking outlet to drum up more business. One of its cake decorators provides updates on her current projects and offers free cake samples to Facebook users. By using Facebook, companies are better able to engage in relationship marketing or the creation of relationships that mutually benefit the marketing business and the customer. Other products that have utilized relationship marketing to help consumers feel more connected to products are Pepsi and Walt Disney Co. The Walt Disney Co. has created dozens of Facebook pages, which have succeeded in generating more than 100 million Facebook fans. Some of its success can be attributed to the Disney Pages promotion tab on its main Disney Facebook page. The tab allows users to access promotional content without having to leave Facebook. In many ways, Facebook is becoming an e-commerce platform through which companies can sell products through the site. DigiSynd, Disney's social media agency, was able to use a platform on Facebook called Disney Tickets Together that allowed fans to purchase movie tickets. These new business opportunities demonstrate how Facebook is evolving into a marketing destination for companies.²⁸

Myspace

Myspace is a social networking site that offers users the chance to create profiles and connect with other Myspace members across the world. Like Facebook, Myspace allows users to watch videos, listen to and promote music, instant-message friends, write on various topics (called forums), network with friends/colleagues, play games, and more. The site focuses on an audience between the ages of 13 to 35 and is available in 16 languages.²⁹ Due to what some analysts say was a failure to innovate, Myspace now trails behind Facebook in popularity. Myspace hopes that redesign and content changes will help to reinvigorate the site.

Nevertheless, Myspace retains a loyal following who prefer its layout and interface to other online social networking sites. Businesses have come up with unique ways to interact with consumers through Myspace. Burger King created a fictional profile for its mascot, The King, on Myspace to appeal to the 18-to-34 age group. Additionally, Myspace offers an opportunity for advertisers to reach a large demographic. This has convinced Google to renew its contract to sell online display advertising through Myspace.³⁰ Myspace also offers aspiring artists a chance to demonstrate their talent, becoming the largest artist community on the Web. Emerging musicians are using Myspace to record and share their music, and users can create social playlists of music from famous artists.³¹ Myspace can be a creative means of marketing through the use of profiles, advertising, music, videos, and other forms of online media.

LinkedIn

LinkedIn is a social networking site geared toward professionals. Users can network with professionals from all over the world. According to the LinkedIn website, the network has more than 90 million users, including executives from all *Fortune* 500 companies. LinkedIn is the world's largest professional networking site, with several million monthly visitors.³²

A LinkedIn profile resembles a résumé. It contains information on past and current job experiences, qualifications, goals, and educational background. Like all social networking sites, LinkedIn allows users to locate and connect with other LinkedIn members and join groups, which in this case are predominantly professional organizations. LinkedIn facilitates job searches and allows companies to search the network for potential employees with the necessary skills. Microsoft, Target, eBay, and Netflix have all used the LinkedIn network to recruit new employees.³³ Employees are also using LinkedIn to search for job openings. Approximately 28 percent of college students have indicated that they intend to use LinkedIn to search for employment opportunities.³⁴

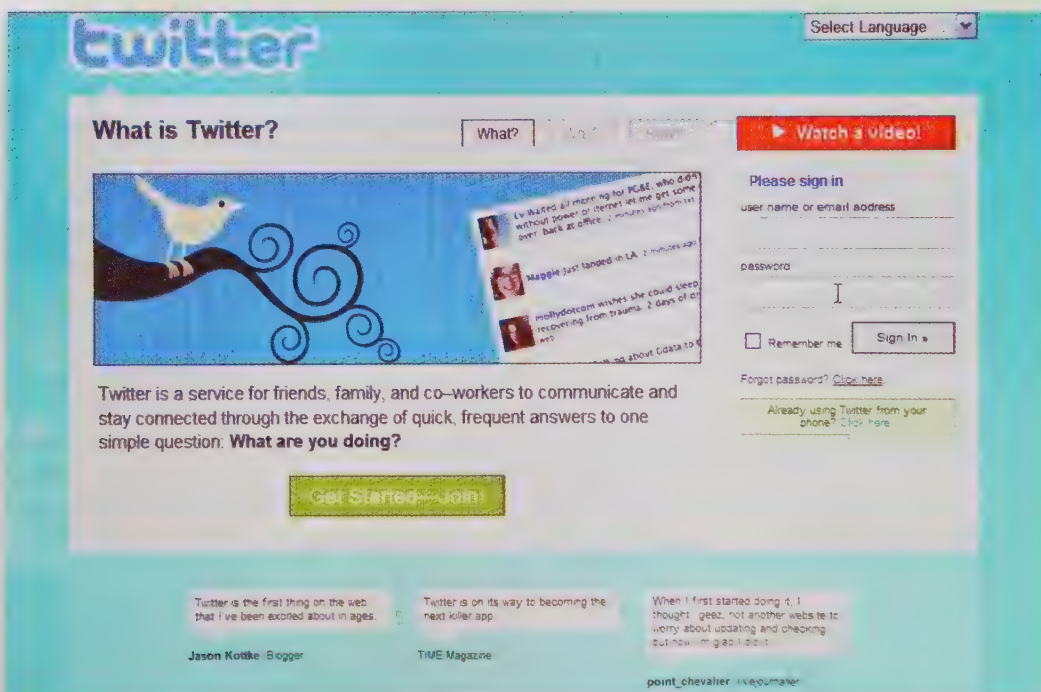
Although a professional networking site like LinkedIn seems more like a recruiting site rather than a marketing tool, companies use LinkedIn to familiarize users with their businesses. For instance, in addition to listing job openings, the discount retailer Target uses its LinkedIn page to offer stock information, a link to the company website, some background on

the business, and links to news updates on company activities and products. Similarly, Procter & Gamble has a LinkedIn page that allows users to locate professionals, research careers, and get updates on the company. Smart marketers can thereby use LinkedIn to reach professionals not only for recruiting purposes but also to spread information and interest in the company.

Twitter

Twitter is a hybrid mix of a social networking site and a micro-blogging site that asks viewers one simple question: “What’s happening?” Users can post answers of up to 140 characters, which are then available for their “followers” to read. It sounds simple enough, but its effects on digital media have been immense. Twitter emerged at a brainstorming session at the podcasting company Odeo. Odeo member Jack Dorsey proposed the idea of sharing online messages with friends without having to go through the more lengthy process of making blog entries. Essentially, he wanted to explore a prototype that would use SMS (text messaging) as a form of online communication. The podcasting elements were eventually removed from the company, leaving behind only the social networking parts. Twitter was officially born in 2006, and it became available to the public in 2007. Twitter quickly progressed from novelty to social networking staple, attracting 6 million monthly viewers.³⁵ About 11 percent of Internet users have used a micro-blogging site like Twitter.³⁶

The thrill of Twitter is that users get to tell the world about their daily lives in short messages, known as “tweets.” These tweets can range from the mundane, such as “I’m eating a sandwich,” to the highly interesting. For instance, President Obama used Twitter to announce “We just made history” when he won the 2008 presidential election. Halfway across the world, Russian president Dmitry Medvedev actually had to rebuke one of his regional governors for tweeting during a government session on educational policy.³⁷ Twitter has even been utilized to report news and organize political events. Protestors in Egypt and the Middle East used social networks like Twitter, Facebook, and YouTube to communicate and bring their message to the world. A limitation of 140 characters may not seem like enough for companies to send an effective message, but some have become experts at using Twitter in their marketing strategies. JetBlue and KFC have both used Twitter in marketing campaigns. JetBlue rewarded 1,000 tickets to followers for its 10th anniversary. KFC agreed to award \$20,000



Social Networks

Twitter is a hybrid social networking and micro-blogging site.

in tuition fees for the best tweet it received from high schoolers. These efforts are having an impact; approximately 23 percent of users report that they follow businesses on Twitter.³⁸

Like other social networking sites, Twitter is also being used to build or, in some cases, rebuild customer relationships. For example, Toyota recruited social media influencers to use Twitter to create buzz about one of its Lexus products. These “tweets” are more personalized than other types of media. To avoid deceiving consumers about the nature of these messages, the Federal Trade Commission created guidelines requiring influencers who are receiving pay for company tweets to disclose this fact to viewers.³⁹

Finally, companies are using Twitter to gain a competitive advantage. Microsoft’s search engine Bing developed a partnership with Twitter in which Bing sorts through the millions of tweets, arranging them by relevance and the popularity of the person tweeting. By doing a Bing-Twitter search, Twitter fans get the most important tweets in real time.⁴⁰ Firms also have a chance to utilize Promoted Tweets, Promoted Accounts, and Promoted Trends offered on the site. Marketers can pay Twitter to highlight advertisements or company brands to a wider range of users while they search for specific terms or topics.⁴¹ The race is on for companies who want to use Twitter to get an edge over the competition.

blogs

Web-based journals (short for “weblogs”) in which writers editorialize and interact with other Internet users

wiki

Type of software that creates an interface that enables users to add or edit the content of some types of websites

BLOGS AND WIKIS

Today’s marketers must recognize the impact of consumer-generated material like blogs and wikis, as their significance to online consumers has increased a great deal. **Blogs** (short for “weblogs”) are web-based journals in which writers can editorialize and interact with other Internet users. Two-thirds of Internet users read blogs, and more than half of bloggers say that they blog about topics and brands about which they feel strongly.⁴² The blogging phenomenon is not limited to North America. In South Korea, for example, blogging is even more popular. More than two-thirds of the online population in South Korea creates blogs or similar material.⁴³

Blogs give consumers power, sometimes more than companies would like. Whether or not the blog’s content is factually accurate, bloggers can post whatever opinions they like about a company or its products. When a Korean Dunkin’ Donuts worker created a blog alleging that a company factory had unsanitary conditions, the company forced him to remove the blog. However, readers had already created copies of the blog, and they spread it across the Internet after the original’s removal.⁴⁴ In other cases, a positive review of a product or service posted on a popular blog can result in large increases in sales. Thus, blogs can represent a potent threat to corporations or an opportunity for them.

Blogs have major advantages as well. Rather than trying to eliminate blogs that cast their companies in a negative light, some businesses are using such blogs to answer consumer concerns or defend their corporate reputations. Many major corporations have created their own blogs or encourage employees to blog about the company. Boeing operates a corporate blog to highlight company news and to post correspondence from Boeing enthusiasts from all over the world.⁴⁵ As blogging changes the face of media, companies like Boeing are using them to build enthusiasm for their products and create relationships with consumers.

A **wiki** is a type of software that creates an interface that enables users to add or edit the content of some types of websites. One of the best known is Wikipedia, an online encyclopedia with more than 17 million entries in more than 250 languages on nearly every subject imaginable (*Encyclopedia*

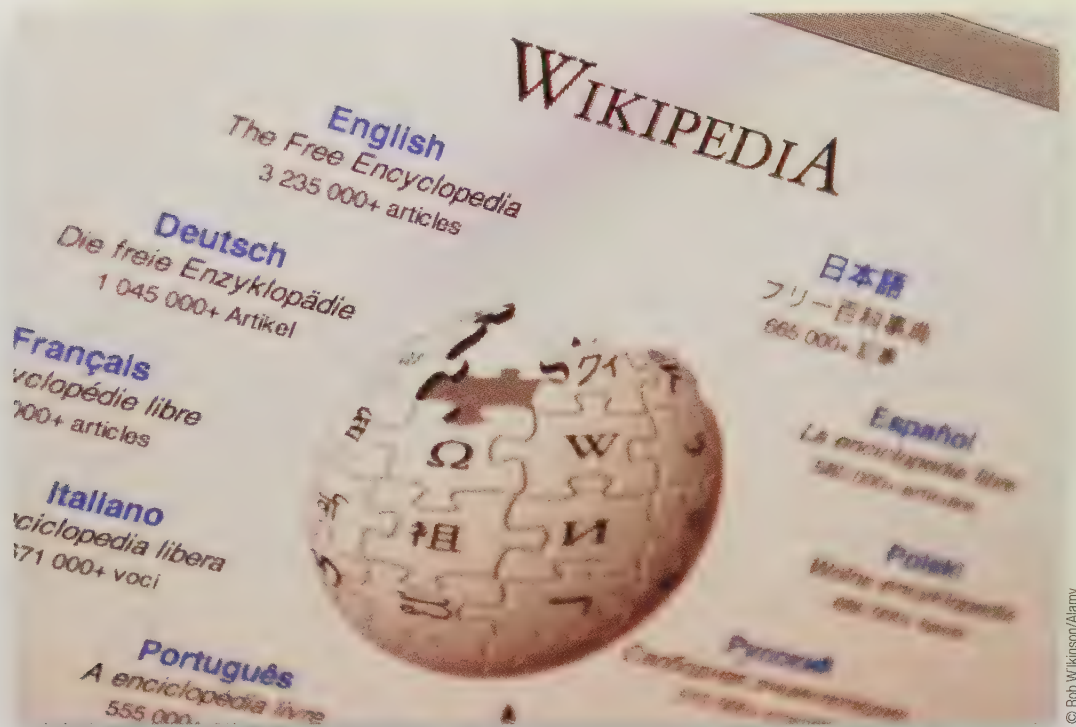
Marketing Debate



The Challenges of Professionals Using Social Networking to Reach Clients

ISSUE: *Should law firms solicit for clients on digital media sites?*

Like many businesses, law firms are embracing social media in a quest to reach potential clients. One legal site called YazTalk.com, which provides information on side effects from the birth control pill YAZ, has resulted in 60 leads. Law firms support the use of searching for leads through social media as a way to encourage individuals to hold businesses accountable. Some companies, however, claim that law firms are using “new Internet weapons” to defame their good names and encourage plaintiffs to file unjustifiable lawsuits. Are law firms using social media merely to make more money? Or are they helping people who are traditionally underserved in the courtroom?^{7b}



Wikis

Wikipedia is an online encyclopedia that allows users to add or edit information in more than 250 languages.

Britannica only has 120,000 entries).⁴⁶ Wikipedia is consistently one of the top 10 most popular sites on the Web. Because Wikipedia can be edited and read by anyone, it is easy for online consumers to correct inaccuracies in content.⁴⁷ This site is expanded, updated, and edited by a large team of volunteer contributors, who are overseen by 1,500 administrators. For the most part, only information that is verifiable through another source is considered appropriate. Access to some entries, however, is restricted because of increased risk for vandalism. Because of its open format, Wikipedia has suffered from some high-profile instances of vandalism in which incorrect information was disseminated. Such problems have historically been detected and corrected quickly. Like all digital media, wikis have advantages and disadvantages for companies. Wikis on controversial companies like Walmart and Nike often contain negative publicity about the companies, such as worker rights violations. However, some companies have begun to use wikis as internal tools for teams working on a project requiring lots of documentation.⁴⁸ Additionally, monitoring wikis provides companies with a better idea of how consumers feel about the company brand.

There is too much at stake financially for marketers to ignore blogs and wikis. Despite this fact, statistics show that less than one-fifth of Fortune 500 companies have a blog.⁴⁹ Marketers who want to form better customer relationships and promote their company's products must not underestimate the power of these two tools as new media outlets.

PHOTO SHARING

Photo-sharing sites allow users to upload and share their photos and short videos with the world. Well-known photo sharing sites include SmugMug, Webshots, Photobucket, and Flickr. Flickr is owned by Yahoo! and is the most popular photo-sharing site on the Internet. A Flickr user can upload images, edit them, classify the images, create photo albums, and share photos or videos with friends without having to e-mail bulky image files or send photos through the mail. Flickr is so popular that the site experiences thousands of new image uploads every minute.⁵⁰ Photo sharing represents an opportunity for companies to market themselves visually by displaying snapshots of company events, company staff, and/or company products. Companies can direct viewers to their photostreams (their sets of photographs)

Photo Sharing

Shutterfly offers free photo storage and search capability.



Handout/MCT/Newscom

by marking their pictures with the appropriate keywords, or tags.⁵¹ Tags are essential for marketing on Flickr because they help direct traffic to the corporate photostreams.

Many businesses with pictures on Flickr have a link connecting their Flickr photostreams to their corporate websites.⁵² General Motors, for example, uses Flickr not only to showcase its cars and important events but also to provide links that connect users to GM's blog and to *The Lab*, GM's "interactive research community," where the company test markets designs and project ideas on consumers.⁵³ In addition to the White House's stream of photos by official White House photographers, President Obama has his own Flickr photostream, which he uses to post images that relate directly to important legislation.

One of Flickr's rivals is Picasa Web Albums, a Google photo-sharing site that developed out of Google's photo-editing program Picasa. The program has grown rapidly and is growing in popularity, because it provides more features than Flickr and some of the other major photo-sharing websites. Picasa Web Albums is free to users; it generates revenues through ads shown on the site. If users want to use more than 1 GB of storage space, they can rent additional space up to 16 TBs.

As one web marketer puts it, companies that use photo sharing "add a personal touch to their businesses."⁵⁴ Although it is too early to gauge the effects of marketing through photo-sharing sites, more and more marketers will likely use the site as an inexpensive way to reach their audience.

VIDEO SHARING

Video-sharing sites allow virtually anybody to upload videos, from professional marketers at *Fortune* 500 corporations to the average Internet user. Some of the most popular video sharing

Green Marketing



GE Uses Digital Media to Promote “Tag Your Green”

General Electric (GE) is getting young people to think green on the Internet. Its campaign, titled “Tag Your Green,” is part of GE’s ecomagination movement, designed to create innovative environmental solutions in harmony with economic growth. To truly engage young people, GE is using the power of digital media. The company partnered with Howcast Media to hire 15 YouTube celebrities, such as iJustine and Wong Fu Productions, to promote GE and to create green videos based on viewer suggestions. Resulting

videos, including one that advised young women on how to curl their hair without using electricity, went viral. In one week, views of “Tag Your Green” videos on YouTube jumped 215 percent. The company also asked Flickr users to upload wind, water, and light photos to promote sustainability. For every downloaded image, GE donated clean water, solar power, and wind energy to communities in need. Through its innovative digital campaign, GE was able to draw young people into advancing its green goals.⁶

sites include YouTube, Video.Yahoo.com, Metacafe.com, and Hulu. Video-sharing sites give companies the opportunity to upload ads and informational videos about their products. There are hundreds of smaller video-sharing sites on the Internet, available in dozens of languages. A few videos become viral at any given time, and although many of these gain popularity because they embarrass the subject in some way, others reach viral status because people find them entertaining. (Viral marketing will be discussed in more detail in Chapter 16.) For instance, IBM created a series of six videos called “The Art of the Sale,” which presents three attributes of the company’s mainframe computer in a humorous format reminiscent of episodes of the TV sitcom *The Office*. Though some wrote off the video as an excessively forced attempt at humorous marketing, the video received nearly 300,000 hits on YouTube.⁵⁵

A new trend in video marketing is the use of amateur filmmakers. Businesses have begun to realize that they can use consumer-generated content, which saves companies a lot of money because they do not have to hire advertising firms to develop professional advertising campaigns. Unilever is one of many companies incorporating consumer-generated content into its marketing strategies. Its Consumer Creative Challenge encourages consumers to send in their amateur videos for Unilever brands such as Ben & Jerry’s, Vaseline, and Axe. The 2010 grand-prize winner received £7,000 (more than \$11,000) and had her Vaseline video aired at the London Film Festival. Unilever announced that it would integrate the video into future marketing campaigns.⁵⁶ Marketers believe consumer videos appear more authentic and create enthusiasm for the product among consumer participants.

Google is so confident in the future of video-sharing sites that it purchased YouTube for \$1.65 billion in 2006.⁵⁷ If Google is correct in its predictions, then online video clips—both corporate-sponsored and consumer-generated—are likely to revolutionize the marketing industry.

PODCASTING

Podcasting, traditionally used for music and radio broadcasts, is also an important digital marketing tool. **Podcasts** are audio or video files that can be downloaded from the Internet with a subscription that automatically delivers new content to listening devices or personal computers. Podcasts offer the benefit of convenience, giving users the ability to listen to or view content when and where they choose.

Podcasts are rapidly gaining in popularity. A survey estimates that by 2013, 37.6 million Americans will be downloading podcasts on a monthly basis. The fact that the majority of

podcast

Audio or video file that can be downloaded from the Internet with a subscription that automatically delivers new content to listening devices or personal computers; podcasts offer the benefit of convenience, giving users the ability to listen to or view content when and where they choose

current podcast users are between 18 and 29 years of age makes podcasts a key tool for businesses marketing to this demographic.⁵⁸ One business that uses podcasting is the Student Loan Network, which offers a free weekly Financial Aid Podcast to college-age students that gives advice on affordable college education, credit cards, and other financial subjects important to young people. Listeners also have the added benefit of making comments and offering feedback to the podcaster on the material presented in the podcasts.⁵⁹ This allows listeners to actively weigh in on how helpful the podcasts are and provides the creators of the podcasts with feedback on how to improve them in the future.

As podcasting continues to catch on, radio and television networks like CBC Radio, NPR, MSNBC, and PBS are creating podcasts of their shows to profit from this growing trend. Through podcasting, many companies hope to create brand awareness, promote their products, and encourage customer loyalty.

VIRTUAL REALITIES

Second Life is perhaps the most popular of all virtual worlds, which are computer-based, online, simulated environments that can involve thousands of participants. Other virtual worlds are Everquest, Sim City, and the role-playing game World of Warcraft. Such virtual worlds can be classified as social networks with a twist. Virtual realities are user-created, three-dimensional worlds that have their own economies and currencies, lands, and residents who come in every shape and size. Internet users who participate in virtual realities like Second Life choose a fictional persona called an *avatar*. Residents of Second Life connect with other users, communicate with one another, purchase goods with virtual Linden dollars (which are convertible to real dollars on a floating exchange rate of around 250 Linden dollars per \$1), and even own virtual businesses. For entertainment purposes, residents can shop, attend concerts, or travel to virtual environments—all while spending real money.

Virtual Realities

Consumers can completely immerse themselves in virtual reality games, such as World of Warcraft.



Whereas the businesses in Second Life are virtual ones, real-world marketers and organizations have been eager to capitalize on Second Life's popularity. Second Life allows businesses to reach consumers in a way that is creative and fun. For instance, in an effort to connect with consumers and build brand loyalty, car companies like Toyota and General Motors began selling virtual cars to Second Life residents.⁶⁰ Other businesses are looking toward Second Life to familiarize consumers with their products and services. For instance, large companies such as H&R Block and Best Buy offer support services in Second Life.

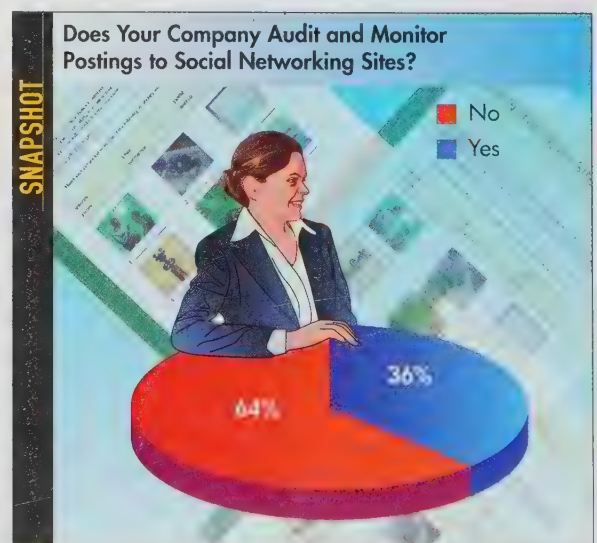
Companies are also using virtual realities to encourage residents to participate in company activities. For instance, CNN created a virtual news hub in Second Life and began encouraging residents to submit stories that occur in this virtual world.⁶¹ Companies embarking into Second Life are not only creating brand loyalty by connecting with Second Life residents, they are using consumer knowledge and money to profit the companies—virtually and in real time. Although the presence of real-world companies in virtual worlds is still in the experimental stages, virtual worlds like Second Life offer a creative and novel way for marketers to interact with consumers.

Changing Digital Media Behaviors of Consumers

Since the beginning of e-marketing, businesses have witnessed a range of changes in consumer behavior. Today, with a click of a button, consumers expect to be able to gain access to a vast amount of information on companies, products, and issues that can aid them in their purchasing decisions. Deal websites have emerged that now allow online shoppers to find the best deals, giving retailers a run for their money. E-marketers like Amazon.com, eBay, and Netflix have taken market share away from brick-and-mortar bookstores and movie rental stores. Companies are working to provide creative incentives to consumers and market to them in completely new ways in order to compete.

With the onset of social networking sites and digital media like blogs, consumers are able to connect with each other in ways unheard of a decade ago. Through these connections, consumers can share information and experiences without company interference, allowing consumers to get more of the “real story” on a product or company. In many ways, some of the power of the professional marketer to control and dispense information has been placed in the hands of the consumer. Today, blogs, wikis, podcasts, ratings, and the like are used to publicize, praise, or challenge the company. However, most companies in the United States do not routinely monitor consumers' postings to online social networking sites. In many cases, this represents a missed opportunity to gather information.

However, the changing social behavior of consumers does not have to be a sign of doom to marketers who choose to harness the power of the consumer and Internet technology. While consumers can use digital media to access more information, marketers can also use the same sites to get information on the consumer—often more information than could be garnered through traditional marketing venues. They can examine how consumers are using the Internet to target better marketing messages to their audience. Marketers increasingly use consumer-generated content to aid in their own marketing efforts, even going so far as to incorporate Internet bloggers in their publicity campaigns. Finally, marketers are also beginning to use the Internet to track the success of their Internet marketing campaigns, creating an entirely new way of gathering marketing research.



Source: PricewaterhouseCoopers, The Global State of Information Security Survey 2010 (survey of 7,200 managerial positions)

ONLINE CONSUMER BEHAVIOR

As Internet technology evolves, digital media marketers must constantly adapt to new technologies and changing consumer patterns. Unfortunately, with so many new technologies emerging, the attrition rate for digital media channels is very high, with some dying off each year as new ones emerge. Social networks are no exception: the earliest social networks like Six Degrees were dropped when they failed to catch on with the general public. As time passes, digital media are becoming more sophisticated so as to reach consumers in more effective ways. Those that are not able to adapt and change eventually fail.

Mastering digital media presents a daunting task for marketers, particularly those used to more traditional means of marketing. For this reason, it is essential that marketers focus on the changing social behaviors of consumers and how they interact with digital media. Social networking and new digital technologies, as their adoption becomes more widespread, are changing how consumers gather and use information. Consumers have access to more information than ever before, and the Internet is enabling the average consumer to get involved in the marketing process.

Forrester Research, a technology and market research company, emphasizes the importance of understanding these changing relationships in the online media world. By grouping online consumers into different segments based on how they utilize digital online media, marketers can gain a better understanding of the online market and how best to proceed.⁶²

The Social Technographics Profile developed by Forrester Research groups the online community into six segments according to how they interact with new digital media. It is important to note that these segments overlap; many online consumers may belong to multiple segments simultaneously. Table 9.3 provides a description of these six different groups. *Creators* are those consumers who create their own media outlets, such as blogs, podcasts, consumer-generated videos, and wikis.⁶³ Creators are becoming increasingly important to online marketers as a conduit for addressing consumers directly. These types of consumer-generated media are becoming a major part of companies' public relations strategies. For instance, many marketers are pitching new products or stories to professional reporters and bloggers. Bloggers who post this information can reach online consumers as well as reporters in the mainstream media, who often read blogs for story ideas.⁶⁴

The Technographics profile calls its second group of Internet users *critics*. Critics are people who comment on blogs or post ratings and reviews. If you've ever posted a product review or rated a movie, you have engaged in this activity. Critics need to be an important component in a company's digital marketing strategy because the majority of online shoppers read ratings and reviews to aid in their purchasing decisions. As mentioned before, consumer-generated content like ratings and reviews are viewed as more credible than corporate messages. Hence, marketers should carefully monitor what consumers are saying about their products and address consumer concerns that may affect their corporate reputation.

Collectors are perhaps the most newly recognized group of the six. Collectors gather information and organize content generated by critics and creators. The growing popularity of this segment is leading to the creation of social networking sites like Digg, del.icio.us, and RSS feeds. Want to know the top 10 stories according to online consumers? Collectors gather this type of information and post their findings to social networking sites like Digg, where users vote on the sites they like the best. Collectors usually constitute a smaller part of the online population than the other groups; however, they can still have a significant impact on marketing activities.⁶⁵ Because collectors are active members in the online community, a company story or site that catches the eye of a collector is likely to be posted and discussed on collector sites and made available to other online users looking for information.

Another Technographic segment, known as *joiners*, is growing dramatically. Anyone who becomes a member of Myspace, Twitter, Facebook, or other social networking sites is a joiner.⁶⁶ It is not unusual for consumers to be members of several social networking sites at once. Joiners join

TABLE 9.3 Social Technographics

Creators	Publish a blog Publish personal web pages Upload original video Upload original audio/music Write articles or stories and post them
Critics	Post ratings/reviews of products or services Comment on someone else's blog Contribute to online forums Contribute to/edit articles in a wiki
Collectors	Use RSS feeds Add tags to web pages or photos "Vote" for websites online
Joiners	Maintain profile on a social networking site Visit social networking sites
Spectators	Read blogs Watch video from other users Listen to podcasts Read online forums Read customer ratings/reviews
Inactives	None of the activities

Source: Charlene Li and Josh Bernoff, *Groundswell* (Boston: Harvard Business Press, 2008), p. 43.

these sites to connect and network with other users, but, as previously discussed, marketers can take significant advantage of these sites to connect with consumers and form customer relationships.

The last two segments are classified as *spectators* and *inactives*. Inactives are online users who do not participate in any digital online media, but as more and more people begin to use computers as a resource, this number is dwindling. Spectators are the largest group in most countries, and it is not hard to see why. Spectators are those consumers who read what other consumers produce but do not produce any content themselves.

Marketers who want to capitalize on social and digital media marketing will need to consider what portion of online consumers are creating, rating, collecting, joining, or simply reading online materials. As with traditional marketing efforts, marketers need to know the best ways to reach their target market. In markets where spectators make up the majority of the online population, companies should post their own corporate messages through blogs and websites promoting their organizations. In a population of joiners, companies could try to connect with their target audience by creating profile pages and inviting consumers to post their thoughts; as we discussed earlier, Pepsi is doing this through its Pepsi Refresh Project, respectively. In areas where a significant portion of the online community consists of creators, marketers should continually monitor what other consumers are saying and incorporate bloggers into their public relations strategies. Companies must exercise care, however. The Korean Dunkin' Donuts scenario cited earlier in this chapter is a prime example of what happens when a company tries to use its influence to stifle online criticism and gets hit with a backlash. The power of the consumer in the online world should not be underestimated.

Technographics

Bloggers can report and critique live from concerts and sporting events.



© Mario Tama/Getty Images

by the online marketer. By knowing how to segment the online population, marketers can better tailor their online messages to their target markets.

E-MARKETING STRATEGY

Although the Internet has yet to take off in many countries due to a lack of infrastructure, basic Internet literacy is increasingly common. More than one-fourth of the world's population uses the Internet, and this number is growing at a high rate. In North America, approximately three-fourths of the population has Internet access.⁶⁷ These trends display a growing need for businesses to use the Internet to reach an increasingly web-savvy population. As more and more shoppers go online for purchases, the power of traditional brick-and-mortar businesses is lessening. Online retailers like Amazon.com are challenging more traditional retailers like Barnes & Noble or Kmart, and even small businesses are finding ways to reach customers and grab share away from established competitors.

This makes it essential for businesses, small and large alike, to learn how to effectively use new digital media. Most businesses are finding it necessary to use digital marketing to grab or maintain market share. When Amazon.com first became popular as an online bookstore in the 1990s, the brick-and-mortar bookseller chain Barnes & Noble quickly made online shopping possible through its website, but did not abandon its physical stores. This “brick-and-clicks” model is now standard for businesses from neighborhood family-owned restaurants to national chain retailers. In the process, companies that use digital media and social networking marketing well can receive the added benefit of streamlining their organizations and offering entirely new benefits and convenience to consumers. The following sections will examine how businesses are effectively using these digital media forums to create effective marketing strategies on the web.

PRODUCT CONSIDERATIONS

As with traditional marketing, marketers must anticipate consumer needs and preferences and then tailor their products to meet these needs. The same is true with marketing products using digital media. Digital media provide an opportunity to add a service dimension to traditional

products and to create new products that could only be accessible on the Internet. The applications available on the iPad, for instance, provide examples of products that are only available in the digital world. The ability to access product information for any product can have a major impact on buyer decision making. However, with larger companies now launching their own extensive marketing campaigns and with the constant sophistication of digital technology, many businesses are finding it necessary to continually upgrade their product offerings to meet consumer needs. As has been discussed throughout this chapter, the Internet represents a large resource to marketers for learning more about consumer wants and needs.

Some companies now utilize online advertising campaigns and contests to help develop better products. Netflix, the online movie rental-by-mail service, offers a much wider array of movies and games than what is available at the average movie rental store, plus a number of convenience features: no late fees, a two-week free trial service, quick delivery times, and online video streaming of some movies. Netflix also prides itself on its recommendation engine that recommends movies for users based on their previous rental history and how they rate movies they have seen. Other companies have begun selling their products through social networking sites. With social media e-commerce applications, shoppers can add a company's products into a cart through Facebook and then transfer the shopper back to the company website to complete the transaction. On the other hand, some newer applications like Off the Wall and Payvment are now allowing shoppers to purchase a company's products directly from Facebook.⁶⁸

DISTRIBUTION CONSIDERATIONS

The role of distribution is to make products available at the right time, at the right place, in the right quantities. Digital marketing can be viewed as a new distribution channel that helps businesses increase efficiency. The ability to process orders electronically and increase the speed of communications via the Internet reduces inefficiencies, costs, and redundancies while increasing speed throughout the marketing channel. Shipping times and costs have become an important consideration in attracting consumers, prompting many companies to offer consumers low shipping costs or next-day delivery. Walmart, for example, is attempting to take market share away from e-marketers like Amazon.com by decreasing its delivery time and by creating a "site-to-store" system, whereby consumers get free shipping if they pick up their purchases at a Walmart store of their choice. This offer has the increased benefit of getting the customer into the store where he or she might make "add-on purchases." Walmart has even tested a new distribution concept to complement store pickups: a drive-through window that allows customers to pick up the products they ordered through Walmart's website. Through even more sophisticated distribution systems, Walmart hopes to overtake other e-marketers and become the biggest online merchant.⁶⁹

Distribution involves a push-pull dynamic: the firm that provides a product will push to get that product in front of the consumer, while at the same time connectivity aids those channel members that desire to find each other—the pull side of the dynamic. For example, an iPhone application can help consumers find the closest Starbucks, McDonald's, or KFC. On the other hand, a blog or Twitter feed can help a marketer communicate the availability of products and how and when they can be purchased. This process can help push products through the marketing channel to consumers or enable customers to pull products through



© Joshua Kristal/Alamy

Distribution

The Kindle e-book reader is a direct channel for the distribution of books, magazines, and periodicals.

the marketing channel. Hasbro, manufacturer of Monopoly, provided an interesting mix of digital and hard-copy product when it launched a multiplayer online game, Monopoly City Streets, to promote a new offline board game called Monopoly City. More than 5 million users participated in games of Monopoly City Streets over a period of three months.⁷⁰ In addition to playing these online games, they were able to purchase the new offline game through the website.

PROMOTION CONSIDERATIONS

The majority of this chapter has discussed ways that marketers use digital media and social networking sites to promote products, from creating profiles on social networking sites to connecting with consumers (P&G) to using Twitter to build customer relationships (Toyota) to taking advantage of virtual worlds like Second Life to increase consumer interest (CNN). Social networking sites also allow marketers to approach promotion in entirely new, creative ways. For instance, Samsung used the Internet to help publicize the launch of its ST 1000 digital camera. The company partnered with the Schonbrunn Zoo in Vienna for the promotion. The zoo equipped a resident orangutan with the camera and then uploaded the images she took to a Facebook page in order to demonstrate how easy it is to use the camera. The campaign was deemed a great success, with the Facebook page receiving more than 200,000 hits, and the company was granted a CLIO award for excellence in advertising.⁷¹

These digital promotions all attempt to increase brand awareness and market to consumers. As a result of online promotion, consumers are more informed, reading consumer-generated content before making purchasing decisions and increasingly shopping at Internet stores. Consumer consumption patterns are changing radically, and marketers must adapt their promotional efforts to meet these new patterns. These trends are not just limited to the Western hemisphere. Businesses around the world are tapping into digital media like online auction sites to increase company sales. This represents a revolutionary shift in countries like China, where online shopping had not been widely adopted by consumers. This is quickly changing as businesses realize the benefits of marketing online. One of the first Chinese companies to adopt Internet selling was Taobao, an auction site for consumers that also features sections for Chinese brands and retailers. Taobao has been enormously successful, with the majority of online sales in China going through its site.⁷² The changing consumer trends in China demonstrate that the shift to digital media promotion is well under way.

Emerging Trends in Marketing



Lockerz Integrates Promotion, Social Networking, and Shopping

Lockerz.com is putting a spin on traditional online shopping. Founded in 2009 by Kathy Savitt, the site is a blend of media, e-marketing, and social networking that targets generation Z (the first generation born during the Internet age). Lockerz gives out points to members for completing surveys, watching videos with ads, and more. These points, or PTZ, are transformed into discounts on items offered through Lockerz's Boutiques. Lockerz also created a social commerce platform to reward users for introducing their friends to their favorite brands.

The viral nature of Lockerz is catching on. In one year, more than 17 million young people became members of the site. Advertisers love it, too. The online U.S. retail industry is worth \$140 billion, but the efficacy of traditional online advertising has dwindled. Advertisers, especially media companies, see potential profits in sites like Lockerz that combine promotion with shopping. Heavy hitter venture capitalist firms concur, backing Lockerz as an important innovator toward social media's future.^d

Almost any traditional promotional event can be enhanced or replaced by digital media. Pepsi symbolizes the shift from traditional advertising to digital media. In 2010, Pepsi withdrew from Super Bowl advertising for the first time in more than 20 years to concentrate on digital advertising and public relations.⁷³ Banks are using blogs, podcasts, and Twitter to post rates and financial products and to answer financial questions. Even direct selling representatives from firms such as Avon or Amway are gathering their consumers on Facebook to discuss products, much like socializing around the kitchen table or engaging in a focus group.

PRICING CONSIDERATIONS

Pricing relates to perceptions of value and is the most flexible element of the marketing mix. Digital online media marketing facilitates both price and nonprice competition because the accessibility characteristic of Internet marketing gives consumers access to more information about costs and prices. As consumers become more informed about their options, the demand for low-priced products has grown, leading to the creation of deal sites like BizRate.com, NexTag.com, PriceGrabber.com, and Shopzilla.com, where consumers can directly compare prices. Travel sites like Expedia.com, Kayak.com, and FareCompare.com provide consumers with a wealth of information, from flights to hotels, allowing them to compare benefits and prices. Several marketers are also offering buying incentives like online coupons or free samples to generate consumer demand for their product offerings.

Digital connections can help the customer find the price of the product available from various competitors in an instant. Websites provide price information, and mobile applications can help the customer find the lowest price. Customers can even bargain with retailers in the store by using a smartphone to show the lowest price available during a transaction. While this new access to price information benefits the consumer, it also places new pressures on the seller to be competitive and to differentiate products so that customers focus on attributes and benefits other than price. For the business that wants to compete on price, digital marketing provides unlimited opportunities.

Using Digital Media in Marketing Research

Marketing research and information systems can use digital media and social networking sites to gather useful information for marketing decisions. Sites such as Twitter, Facebook, Myspace, and LinkedIn can be a good substitute for focus groups. Online surveys can serve as an alternative to mail, telephone, or personal interviews.

Crowdsourcing refers to the way digital media can be used to outsource tasks to a large group of people. In the case of digital marketing, crowdsourcing is often used to obtain the opinions or needs of the crowd (or potential markets). Communities of interested consumers join crowdsourcing sites like threadless.com, which designs T-shirts, or crowdspring.com, which creates logos, print, and Web designs. On crowdspring.com, participants can submit a project that needs to be designed, and it is shared with more than 64,000 designers or writers who can choose whether to work on the project. Project submitters name the prices they are willing to pay, along with a small fee and commission that the site charges. On threadless.com, participants can submit and score T-shirt designs. Designs with the highest votes are printed and then sold. There are even sites that crowdsource entire advertising campaigns. For example, victorandspoils.com uses digital technology to bring together creative people worldwide into their “creative department.” Companies that require marketing or advertising campaigns have the advantage of engaging the services of people from across the world to work on their projects.⁷⁴

crowdsourcing

Refers to the way digital media can be used to outsource tasks to a large group of people

While large companies are paying millions of dollars for creative ideas, innovative competitors are offering creative services at bargain prices. For example, crowdspring.com was designed for small businesses that could not pay the high fees charged by traditional agencies. Harnessing consumers' creativity also provides a cost-effective way to come up with new ideas: mobile phone brand LG paid out more than \$80,000 in awards to gather ideas on what the mobile phone should look like in 2, 5, or 10 years, and the Italian pasta brand Barilla used crowdspring.com to post an assignment for interested individuals who wanted to try their hand at designing a new pasta product—at a cost far less than paying for banner ads on websites.⁷⁵

Procter & Gamble views social networking as an important marketing research tool that allows the company to venture into consumers' lives and the environments where they are spending their time. For instance, P&G develops Facebook fan pages for each of its brands. The Pringles fan page has more than 2 million global fans. The company also views Twitter as a valuable marketing research tool; its Twitter page enables consumers to ask questions that can help product marketing teams understand consumers' interest in their products and address issues that need to be resolved.⁷⁶

It is also important for organizations to harness all of their internal information, and internal social networks can be helpful for that. Danone, a global food group based in France, has an internal social network system to connect employees spread across more than 100 countries. This network provides knowledge sharing and internal communications about products, customers, and market opportunities.

Consumer feedback is an important aspect of the digital media equation. One of the oldest forms of digital media is the forum, where participants post responses and converse on certain topics. Discussion forums are very popular with the online population. While some communities are more involved in online debates than others, about one-fifth of Americans participate in discussion forums, which can range from product discussions to comments on movies. Ratings and reviews have become even more popular, with 25 percent of the U.S. online population reading these types of consumer-generated feedback.⁷⁷ Retailers that use e-marketing, such as Amazon, Netflix, and Priceline, are capitalizing on these ratings and reviews by allowing consumers to post comments on their sites concerning books, movies, hotels, and more. Today, it is estimated that more than three-fourths of online shoppers read ratings and reviews before making purchasing decisions.⁷⁸

These simple forms of consumer-generated content present challenges and opportunities for marketing. Positive reviews act as reputation enhancers, while negative reviews can damage a company's reputation. At the same time, these digital media forums allow marketers to closely monitor what their customers are saying. In the case of negative feedback, marketers can communicate with consumers to address problems or complaints much more easily than with traditional marketing channels. Yet despite the ease and obvious importance of online feedback, one study conducted by the Chief Marketing Officer Council revealed that fewer than one-fifth of marketing chiefs continually monitor their message boards for consumer feedback.⁷⁹

It should be clear by now that digital media marketing offers a range of benefits and opportunities for businesses. However, as with all marketing activities, launching a promotional campaign is never enough. The business must also be able to monitor marketing performance. To evaluate whether an online promotional campaign was successful, marketers should ask themselves the following questions:

- *Did the online promotional campaign generate more business for the company?* This requires the marketing researcher to compare sales before and after the campaign was launched. (Note that a question may arise as to how long a campaign should have to generate results; just because sales do not increase overnight does not mean the campaign was a failure.)
- *Did the campaign create more interest in the company?* For instance, if a web advertisement contained a link to the company's website, the researcher could monitor the website to see whether web traffic increased after the launch of the campaign. The more the advertisement attracts the interest of Internet users, the more likely they are to remember the company in the future.

- *Is this increase in demand significant?* The company should set a goal concerning how much it wants demand to increase. This will help the company to decide whether investing in a large-scale digital marketing effort is worth its resources.
- *Are there any extraneous variables that could account for an increase in sales?* Just because sales or web traffic increased after the launch of a digital online media campaign does not mean the campaign was successful if there were other reasons for why demand could have increased (e.g., other types of promotional campaigns, major discounts, or seasons of the year like Christmas).

By launching a baseline, comparing revenue from before and after the digital media program was launched, measuring the number of net new customers and transactions, and carefully analyzing the data, the marketing researcher can sufficiently measure the success of its digital media marketing promotion.⁸⁰ For those who do not want to take the time to perform this research, software companies are developing programs to make the process easier. For instance, software firm Live Oak helps companies that market on social networking sites to track which social networking sites drive the most traffic to the company's website.

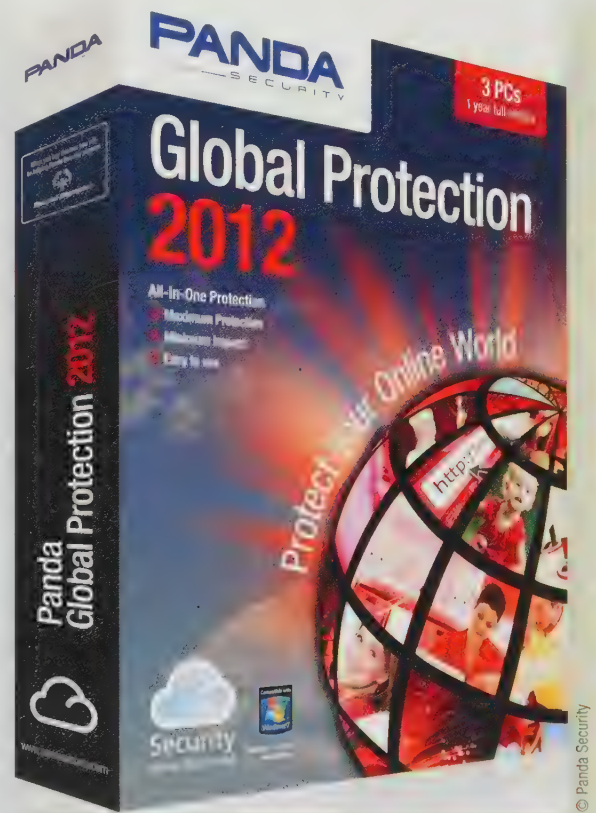
Measurement systems for digital media marketing received a boost during the last recession. As money became tighter, many organizations realized they could save on advertising dollars by utilizing digital media marketing. This prompted the creation of measurement systems to make sure the company's marketing dollars were being used effectively. Chrysler's digital marketing agency, Organic, is one such organization. In its transition to digital media marketing, Organic created a forecasting model to determine how much Chrysler would need to spend on digital media advertising in order to meet sales targets; it also assessed the effectiveness of the online advertising message. By using models to determine which web activities affect end sales, Chrysler was able to refine its messages and predict sales more accurately.⁸¹ As more and more companies begin to market through digital media, digital media measurement systems are likely to become increasingly common.

Ethical and Legal Issues

How marketers use technology to gather information—both online and offline—raises numerous legal and ethical issues. The popularity and widespread use of the Internet grew so quickly in the 1990s that global regulatory systems were unable to keep pace, although today there are an increasing number of laws in place to protect businesses and consumers (see Table 9.4). Among the issues of concern are personal privacy, fraud, and misappropriation of copyrighted intellectual property.

PRIVACY

One of the most significant privacy issues involves the use of personal information that companies collect from website visitors in their efforts to foster long-term relationships with customers. Some people fear the collection of personal information from website users may violate users' privacy, especially when it is done without their knowledge. Another concern is that hackers may break into websites and steal users' personal information, enabling them to commit identity theft. Many of these breaches occur at banks, universities, and other businesses that contain sensitive consumer information.⁸² This requires organizations to implement increased security measures to prevent database theft.



Ethical and Legal Issues in Digital Media

Companies like Panda develop a wide array of protection software to fit the varying needs of a diverse customer base.

TABLE 9.4 A Timeline of Internet-Related Policy

1986	Electronic Communications Privacy Act	Developed by the government to extend laws on wiretaps to electronic transmissions
1996	Digital Millennium Copyright Act	Refined copyright laws to protect digital versions of copyrighted materials, including music and movies
1998	European Union Directive	Requires companies to explain how the personal information they collect will be used and to obtain the individual's permission
1999	Anti-Cyber Squatting Consumer Protection Act	Makes it illegal to register others' trademarks as domain names in order to profit from the sale or transfer of the domain name, tarnish the trademark owner's reputation, or mislead consumers
1999	Uniform Electronic Transactions Act	Sets guidelines for electronic transactions, including the retention of records, electronic contracts, and electronic signatures
2000	Children's Online Privacy and Protection Act (COPPA)	Regulates the collection of personally identifiable information (name, address, e-mail address, hobbies, interests, or information collected through cookies) online from children under age 13
2004	Controlling the Assault of Non-Solicited Pornography and Marketing Act (CAN-SPAM)	Bans fraudulent or deceptive unsolicited commercial e-mail and requires senders to provide information on how recipients can opt out of receiving additional messages

Sources: "Federal Statutes Relevant in the Information Sharing Environment (ISE)," Justice Information Sharing: U.S. Department of Justice, Office of Justice Programs, February 27, 2009, www.it.ojp.gov/default.aspx?area=privacy&page=1285- (accessed February 18, 2010); Report to Congress: The Anticybersquatting Consumer Protection Act of 1999, section 3006 concerning the abusive registration of domain names, www.uspto.gov/web/offices/dcom/olia/tmcybp/repcongress.pdf (accessed February 18, 2010).

Facebook and other social networking sites have also come under fire for privacy issues. Facebook was forced to temporarily suspend a new user-data feature that provided outside websites and applications access to users' addresses and phone numbers. Though users would have had to give their permission before their data were accessed, privacy advocates were concerned that the information was too personal.⁸³ Another Internet privacy issue occurring more frequently is "scraping," an activity where companies offer to collect personal information from social networking sites and other forums. Such events have prompted both consumers and the federal government alike to consider an online privacy "Bill of Rights" to protect consumers from having their information tracked without permission. Such a bill might also require companies to submit to privacy audits.⁸⁴

Due to consumer concerns over privacy, the Federal Trade Commission (FTC) is considering developing regulations that would better protect consumer privacy by limiting the amount of consumer information that businesses can gather online. Other countries are pursuing similar actions. The European Union passed a law requiring companies to get users' consent before using cookies to track their information. Yahoo Inc. now allows Internet users in the United Kingdom to choose whether to opt out of having their Internet habits tracked. In the United States, one proposed solution for consumer Internet privacy is a "do not track" bill, similar to the "do not call" bill for telephones, to allow users to opt out of having their information tracked.⁸⁵ While consumers may welcome such added protections, web advertisers, who use consumer information to better target advertisements to online consumers, see it as a threat. In response to impending legislation, many web advertisers are attempting self-regulation in order to stay ahead of the game. For instance, the Mobile Marketing Association is developing guidelines regarding mobile privacy.⁸⁶ Google, Facebook, and other web-based

companies are increasing their lobbying efforts to ward off regulation that may be potentially damaging. In one year, Google spent approximately \$4 million on lobbying efforts.⁸⁷

On the other hand, certain advertising agencies, networks, and industry trade groups have made the decision to work with Internet-browser makers to create a “do-not-track” system. This represents a major shift for these advertising groups, which until recently have largely opposed such a system. However, although Microsoft and Mozilla have both integrated “do-not-track” features into their browsers, advertisers have a choice as to whether they will respect users’ do-not-track requests.⁸⁸ The hope among online marketers is that these actions could prevent regulation that would make it more difficult to advertise online effectively.

ONLINE FRAUD

Online fraud includes any attempt to conduct dishonest activities online. Online fraud includes, among other things, attempts to deceive consumers into releasing personal information. It is becoming a major source of frustration with social networking sites. Cybercriminals are discovering entirely new ways to use sites like Facebook and Twitter to carry out fraudulent activities. For instance, it has become common for cybercriminals to create profiles under a company’s name. These fraudulent profiles are often created to either damage the company’s reputation (this is particularly common with larger, more controversial companies) or as a way to lure that company’s customers into releasing personal information that the cybercriminal can then use for monetary gain. Another tactic some fraudsters have used is to copy a blog entry from a reputable company and then repost the entry with a link that connects the user to their own sites, where they attempt to sell the user goods (under the reputable company’s name) or collect personal information from the consumer. For instance, a fraudster may repost a blog written by a professional sports organization with a fraudulent link that connects users to a site that sells unlicensed sporting goods. Perhaps the most disturbing is the practice of using social networking sites to pose as charitable institutions. During the Haitian earthquake disaster of 2010, fraudsters set up fake accounts to scam Facebook users into donating money that was used for the fraudsters’ own financial gain.⁸⁹ The Better Business Bureau worked with the FBI to compile and release a list of suspected scams seeking to benefit from the Haiti disaster. A similar problem arose after the earthquake and tsunami in Japan.

Organizations and social networking sites alike are developing ways to combat fraudulent activity on new digital media sites. For instance, organizations known as brand-protection firms monitor social networks for fraudulent accounts. Whenever these sites are found, the organizations notify their clients about the fraud and help them to remove the fraudulent account.⁹⁰ However, the best protection for consumers is to be careful when divulging information online. Privacy advocates advise that the best way to stay out of trouble is to avoid giving out personal information, such as social security numbers or credit card information, unless the site is definitely legitimate.

INTELLECTUAL PROPERTY

The Internet has also created issues associated with intellectual property, the copyrighted or trademarked ideas and creative materials developed to solve problems, carry out applications, and educate and entertain others. Each year, intellectual property losses in the United States total billions of dollars stemming from the illegal copying of computer programs, movies, compact discs, and books. This has become a particular problem for social networking sites. Chinese search engine Baidu has been accused of offering a MP3 service that allows users to download proprietary songs for free. The recording industry sued Baidu in 2005 for Internet piracy, but the Chinese government sided with Baidu.⁹¹ Another example is YouTube, which often faces lawsuits over whether it has infringed on other companies’ copyrights. In one case, Viacom Inc. sued YouTube’s owner Google, claiming that the site violated its copyrights by

online fraud

Any attempt to conduct fraudulent activities online, including deceiving consumers into releasing personal information

airing Viacom videos without permission. Although YouTube is responsible for the video content it shows on its sites, with millions of users uploading content to YouTube, it can be hard for Google to monitor and remove all the videos that may contain copyrighted materials.

The software industry is particularly hard-hit when it comes to the pirating of materials and illegal file sharing. The Business Software Alliance estimates that the global computer software industry loses more than \$50 billion a year to illegal theft.⁹² Consumers view illegal downloading in different ways, depending on the motivation for the behavior. If the motivation is primarily utilitarian, or for personal gain, then the act is viewed as less ethically acceptable than if it is for a hedonistic reason, meaning just for fun.⁹³ Consumers rationalize pirating software, video games, and music for a number of reasons. First, many consumers feel that they just do not have the money to pay for what they want. Second, because their friends engage in piracy and swap digital content, they feel influenced to engage in this activity. Third, for some, the attraction is the thrill of getting away with it and the slim risk of consequences. Fourth, to some extent, there are people who think they are smarter than others; engaging in piracy allows them to show how tech savvy they are.⁹⁴

As digital media continues to evolve, more legal and ethical issues will certainly arise. As a result, marketers and all other users of digital media should make an effort to learn and abide by ethical practices to ensure that they get the most out of the resources available in this growing medium. Doing so will allow marketers to maximize the tremendous opportunities digital media has to offer.

CHAPTER REVIEW

1 Define digital media and electronic marketing, and recognize their increasing importance in strategic planning.

Digital media are electronic media that function using digital codes—when we refer to digital media, we are referring to media available via computers, cellular phones, smartphones, and other digital devices that have been released in recent years. Digital marketing uses all digital media, including the Internet and mobile and interactive channels, to develop communication and exchanges with customers. Electronic marketing (e-marketing) refers to the strategic process of distributing, promoting, pricing products, and discovering the desires of customers using digital media and digital marketing. E-marketing goes beyond the Internet and also includes mobile phones, banner ads, digital outdoor marketing, and social networks.

2 Understand the characteristics of digital media and electronic marketing—addressability, interactivity, accessibility, connectivity, control—and how they differ from traditional marketing activities.

One of the biggest mistakes a marketer can make when engaging in digital marketing is to treat it

like a traditional marketing channel. Digital media offer a whole new dimension to marketing that marketers must consider when concocting their companies' marketing strategies. Some of the characteristics that distinguish online media from traditional marketing include addressability, interactivity, accessibility, connectivity, and control.

The ability of a marketer to identify customers before they make a purchase is called addressability. Many websites encourage visitors to register to maximize their use of the site or to gain access to premium areas. Armed with knowledge about individual customers gleaned from the Web, particularly online social networking sites, marketers can tailor marketing mixes more precisely to target customers with narrow interests.

Interactivity allows customers to express their needs and wants directly to the firm in response to its marketing communications. Interactivity focuses on digital media that can make interpersonal connections possible. Therefore, the selection of appropriate digital media facilitates interactivity that can enable a conversation between the firm and the customer. Digital media like blogs and some social networks allow marketers to interact with prospective customers in real time (or a close approximation of it).

The ability to obtain information is referred to as accessibility. Because customers can access in-depth information about competing products, prices, reviews, and so forth, they are much better informed about a firm's products and their relative value than ever before. Accessibility does not only refer to the consumer's ability to obtain information. It can also be viewed from a firm's perspective. Many companies are adopting a digital media philosophy of "open innovation."

Connectivity is one of the key contributions of social networking, connecting customers with marketers as well as with other customers. Connectivity has been made easier by Facebook, the world's largest online social network, and other global sites such as Myspace, LinkedIn, and Twitter. Many countries have their own, much smaller social networking sites as well.

Control refers to customers' ability to regulate the information they view and the rate and sequence of their exposure to that information. The Internet is sometimes referred to as a *pull* medium because users determine which websites they are going to view; the marketer has only limited ability to control the content to which users are exposed and in what sequence. Digital media like blogs and social networks have endowed users with even greater power because they can more easily associate themselves with certain groups and can actively rate products and services.

3 Identify and understand the role of digital media in a marketing strategy and how each type of digital media can be used as an effective marketing tool.

Digital media in marketing is advancing at a rapid rate. The self-sustaining nature of digital technology means that current advances act as a catalyst to spur even faster development. As faster digital transmissions evolve, marketing applications are emerging that offer an opportunity for companies to reach consumers in entirely new ways.

As a result, e-marketing is moving from a niche strategy to becoming a core consideration in the marketing mix. At the same time, digital technologies are largely changing the dynamic between marketer and consumer. Consumers use mobile applications to do everything from playing games to booking airline and hotel reservations. The menu of digital media alternatives continues to grow, requiring marketers to make informed decisions about strategic approaches.

4 Understand and identify how digital media affect the marketing mix and marketing research techniques.

The reasons for a digital marketing strategy are many. The low costs of many digital media channels can provide major savings in promotional budgets. Laptops, smartphones, mobile broadband, webcams, and other digital technologies can provide low-cost internal communication as well as external connections with customers. Digital marketing is allowing companies to connect with market segments that are harder to reach with traditional media. Despite the challenges involved in such a strategy, digital marketing is opening up new avenues in the relationship between businesses and consumers.

Because digital tools, strategies, tactics, and channels are not static, marketers must prepare to learn new ways to reach customers. There is still a need to balance traditional media with new digital media. Developing skills to manage the appropriate mix of traditional and digital media is important for success. Assuming that everything has changed to digital can be a mistake in reaching some market segments. Collaboration across the organization is necessary to make digital decisions that break down the walls between products and customers. Customers should be engaged to help this bond evolve. Finally, marketers must find ways to address the challenges that come with digital marketing, such as formulating ways to evaluate the effectiveness of a digital marketing campaign. The implementation of an effective digital marketing strategy will help businesses reap the rewards that digital technologies have to offer.

5 Identify legal and ethical considerations in digital media and electronic marketing.

How marketers use technology to gather information—both online and offline—has raised numerous legal and ethical issues.

Privacy is one of the most significant issues, involving the use of personal information that companies collect from website visitors in their efforts to foster long-term relationships with customers. Some people fear that the collection of personal information from website users may violate users' privacy, especially when it is done without their knowledge. Another concern is that hackers may break into websites and steal users' personal information, enabling them to commit identity theft.

Online fraud includes any attempt to conduct dishonest activities online. Online fraud includes, among other things, attempts to deceive consumers into releasing personal information. It is becoming a major source of frustration with social networking sites. Cybercriminals are discovering entirely new ways to use sites like Facebook and Twitter to carry out fraudulent activities. Organizations and social networking sites alike are developing ways to combat fraudulent activity on new digital media sites.

The Internet has also created issues associated with intellectual property, the copyrighted or trademarked ideas and creative materials developed to solve problems, carry out applications, and educate and entertain others. Each year intellectual property losses in the United States total billions of dollars stemming from the illegal copying of computer programs, movies, compact discs, and books. The software industry is particularly hard-hit when it comes to pirating material and illegal file sharing.

ONLINE RESOURCES

Please visit the student website at www.xenagagebrain.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

digital media 235
digital marketing 236
electronic marketing
(e-marketing) 236
addressability 237

social network 237
interactivity 238
accessibility 239
connectivity 240
control 240

blogs 246
wiki 246
podcast 249
crowdsourcing 257
online fraud 261

ISSUES FOR DISCUSSION AND REVIEW

1. How does addressability differentiate e-marketing from the traditional marketing environment? How do marketers use social networks to achieve addressability?
2. Define *interactivity* and explain its significance. How can marketers exploit this characteristic to improve relations with customers?
3. Explain the distinction between *push* and *pull* media. What is the significance of control in terms of using websites to market products?
4. Why are social networks becoming an increasingly important marketing tool? Find an example on the web in which a company has improved the effectiveness of its marketing strategy by using social networks.
5. How has new media changed consumer behavior? What are the opportunities and challenges that face marketers with this in mind?
6. Describe the different technographic segments. How can marketers use this segmentation in their strategies?
7. How can marketers exploit the characteristics of the Internet to improve the product element of their marketing mixes?
8. How do the characteristics of e-marketing affect the promotion element of the marketing mix?
9. How has digital media changed the marketing research industry? Give examples of the opportunities and challenges presented to marketers in light of these changes.
10. Name and describe the major ethical and legal issues that have developed in response to the Internet. How should policymakers address these issues?

MARKETING APPLICATIONS

1. Amazon.com is one of the web's most recognizable marketers. Visit the company's website at **www.amazon.com** and describe how the company adds value to its customers' buying experiences.
2. Social networking has become a popular method of communication not only for individuals but for businesses as well. Visit the various social networking sites, such as Facebook.com and Twitter.com, and identify how companies are utilizing each of these sites in their marketing strategies.
3. Some products are better suited than others to electronic marketing activity. For example, Art.com specializes in selling art prints via its online store. The ability to display a variety of prints in many different categories gives customers a convenient and efficient way to search for art. On the other hand, General Electric has a website displaying its appliances, but customers must visit a retailer to purchase them. Visit **www.art.com** and **www.geappliances.com** and compare how each firm uses the electronic environment of the Internet to enhance its marketing efforts.
4. Visit the information technology company website **www.covisint.com** and evaluate the nature of the business customers attracted. Who is the target audience for this business marketing site? Describe

the types of firms currently doing business through this exchange. What other types of organizations might be attracted? Is it appropriate to sell any banner advertising on a site such as this? What other industries might benefit from developing similar e-marketing exchange hubs?

ONLINE EXERCISE

5. To learn more about the world's first creative ad agency built on crowdsourcing principles, including an opportunity to engage the world's most talented creatives, access the Victors & Spoils site at **http://victorsandspoils.com**.
 - a. How can Victors & Spoils be used to outsource advertising campaigns through co-creation and mass collaboration?
 - b. Victors & Spoils and crowdsourcing is built on the foundation that good ideas should come from anywhere. Is it possible that this new approach will eliminate traditional ad agencies and creative departments?
 - c. If you want to engage in activities related to what would be found in the creative department of an advertising agency, how can Victors & Spoils help you launch your career?

DEVELOPING YOUR MARKETING PLAN

When developing a marketing strategy using new digital media, a marketer must be aware of the strengths and weaknesses of these new media. Digital media are relatively new to the field of marketing and have different pros and cons relative to traditional media sources. Different products and target markets may be more or less suited for different digital media outlets.

1. Review the key concepts of addressability, interactivity, accessibility, connectivity, and control, and explain how they relate to new digital media. Think about how a marketing strategy focused on new digital media differs from a marketing campaign reliant on traditional media sources.

2. No matter what marketing media are used, determining the correct marketing mix for your company is always important. Think about how digital media might affect the marketing mix.
3. Discuss different digital media and the pros and cons of using each as part of your marketing plan.

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at **www.cengagebrain.com**.



VIDEO CASE

ROGUESHEEP'S POSTAGE APP: THE POSTCARD OF THE FUTURE

That 25-cent postcard in the gift shop may soon become a thing of the past. RogueSheep's postage application is giving the traditional postcard a run for its money as it allows users to send a digital postcard to their family members quickly and efficiently. RogueSheep is a software development and consulting company based in Seattle. Cofounders Christopher Parrish, Daniel Guenther, Matt Joss, and Jeff Argast founded RogueSheep as an Adobe Development shop. The company specializes in graphics and publishing software while acting as a consultant to clients with their software development projects.

By far the company's most newsworthy product is its mobile app "Postage," iPhone's first postcard application. The idea for Postage came from a business conference when Parrish's business partner wanted to send a postcard back to his wife. The founders of RogueSheep thought this would make a great iPhone app, and development of this app began.

For \$4.99, iPhone users can purchase the app, choose from more than 60 postcard designs, customize the design by inserting their own photos, and send the postcard to their friends or relatives. What takes a few days by regular mail can now take only seconds. Connectivity based on digital communication keeps people connected in an instant. Social networking sites provide a way that consumers can connect and express their feelings, emotions, and opinions. In the case of the RogueSheep app Postage, it provides better and more personalized connects than a traditional postcard.

RogueSheep has become a major success in the software design world, winning Apple's 2009 Design Award and *Macworld's* 2009 Mac Gems Award for best e-mail app. Much of its success likely comes from the great care that RogueSheep puts into its Postage designs. Each pixel in the app is created by the application designer, and designs are continually added to give customers a range of options to choose from. Additionally, RogueSheep has broken into the social networking world by creating ways that users can share their customized postcards with friends and followers on Facebook and Twitter. Now that social networking is more popular for personal communication than e-mail, RogueSheep's app is perfect for social networks.

To create awareness of the product, RogueSheep uses a combination of digital and traditional media. By using social networking sites like Twitter and Facebook, RogueSheep encourages users to become fans or followers and share information about RogueSheep with others. RogueSheep also uses web advertising and traditional magazines like *Macworld* as promotional tools. Finally, RogueSheep encourages trials of its Postage app by giving out promotional codes through Twitter to enable free trials of its product. RogueSheep's Postage app could also be utilized for businesses that send postcards to remind customers about their products or special events. This application could potentially be customized to be a less expensive, more useful business-to-the-consumer promotional postcard.

As more and more people become familiar with iPhone apps, RogueSheep must constantly adapt its products to anticipate and meet customer needs. In addition to its update to allow for Facebook sharing, RogueSheep is also offering product apps such as SnoGlobe—which allows users to turn their iPhones into a snow globe with falling flakes that move as the iPhone moves—and Holiday ~ Postage for seasonal postcards. By creating a new, efficient way to meet a consumer need, RogueSheep's Postage app may supplant printed materials to become the future of postcards. The business applications of sending RogueSheep postcards are unlimited. It can be just another form of digital marketing. RogueSheep's postage application, like all digital marketing activities, should be integrated into a marketing strategy that relates to the target markets' ability and interest in digital communication.⁹⁵

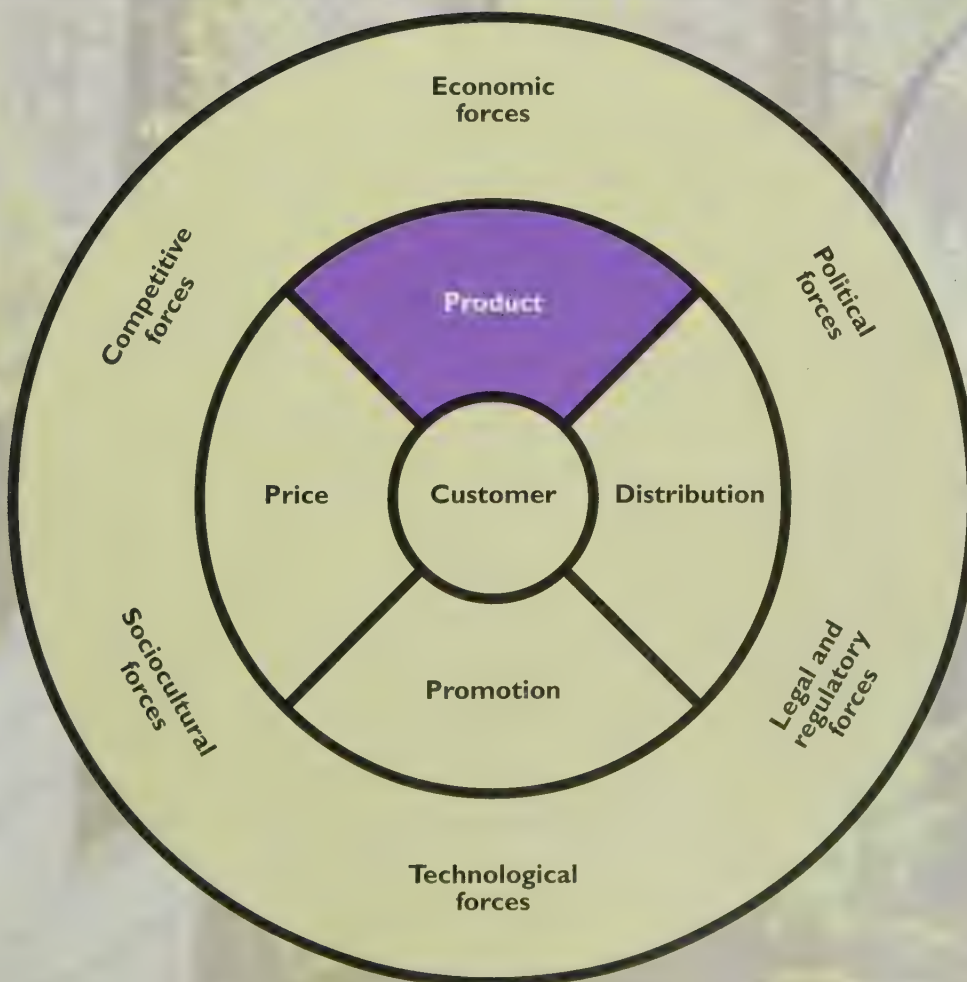
QUESTIONS FOR DISCUSSION:

1. How do you think businesses could effectively use RogueSheep postcards in their communications program?
2. Is it possible for RogueSheep to advance its digital postcards to those who do not have access to iPhone apps?
3. What are the advantages of the RogueSheep digital postcard over traditional postcards?

PART 4

PRODUCT DECISIONS

We are now prepared to analyze the decisions and activities associated with developing and maintaining effective marketing mixes. In Parts 4 through 7, we focus on the major components of the marketing mix: product, pricing, promotion, and distribution. Part 4 explores the product ingredient of the marketing mix. Chapter 10 focuses on basic product concepts and on branding and packaging decisions. Chapter 11 analyzes various dimensions regarding product management, including line extensions and product modification, new-product development, product deletions, and the management of services as products.



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CHAPTER 10

Product, Branding, and Packaging Concepts

OBJECTIVES :

- 1 Understand the concept of a product and how products are classified.
- 2 Explain the concepts of product item, product line, and product mix, and understand how they are connected.
- 3 Understand the product life cycle and its impact on marketing strategies.
- 4 Describe the product adoption process.
- 5 Explain the value of branding and the major components of brand equity.
- 6 Recognize the types of brands and how they are selected and protected.
- 7 Identify two types of branding policies, and explain brand extensions, co-branding, and brand licensing.
- 8 Describe the major packaging functions and design considerations as well as how packaging is used in marketing strategies.
- 9 Understand the functions of labeling and selected legal issues.



MARKETING INSIGHTS

Procter & Gamble Tailors Products for Indian Consumers

Although P&G has 4 billion global customers, CEO Bob McDonald sees this quantity as only the beginning. He intends to raise this number to 5 billion by 2015. Because many developed markets have reached market saturation, the key to P&G's growth prospects is expansion into emerging economies. While P&G has built its profits on offering premium products in developed markets, economies in which income is as low as \$1 per day require P&G to adapt its marketing strategy. To work within this constraint, P&G has begun offering single-serving, no-frills packages to low-income global consumers.

Of the countries targeted by P&G, McDonald sees India as a major opportunity for growth. P&G counts one-third of India's 1.2 billion consumers as customers. The company aims to expand this number by 500 million with an emphasis on needs-based innovation and new-product introduction. For example, P&G introduced the world's lowest-cost disposable diaper at 12 cents each. The company hopes that the product's convenience and affordability will convince Indian mothers to switch from cloth to disposable diapers.

The second challenge for P&G is to find a way to get its innovative products onto shelves. With few large retailers in India, small stores with limited space can easily stock P&G items like razors and toothbrushes. Disposable diapers, however, take up more room. These spacing constraints will require P&G to reconsider how it packages the products that it sells in the Indian market. The trick for P&G will be to balance its products with the needs of its Indian customers—both retailers and end users.¹

In this chapter, we first define a product and discuss how products are classified. Next, we examine the concepts of product line and product mix. We then explore the stages of the product life cycle and the effect of each life-cycle stage on marketing strategies. Next, we outline the product adoption process. Then we discuss branding, its value to customers and marketers, brand loyalty, and brand equity. We examine the various types of brands and consider how companies choose and protect brands, the various branding policies employed, brand extensions, co-branding, and brand licensing. We also look at the role of packaging, the functions of packaging, issues to consider in packaging design, and how the package can be a major element in marketing strategy. We conclude with a discussion of labeling.

What Is a Product?

As defined in Chapter 1, a *product* is a good, a service, or an idea received in an exchange. It can be either tangible or intangible and includes functional, social, and psychological utilities or benefits. It also includes supporting services, such as installation, guarantees, product information, and promises of repair or maintenance. Thus the four-year/50,000-mile warranty that covers some new automobiles is part of the product itself. A **good** is a tangible physical entity, such as an iPad or a Quiznos sandwich. A **service**, in contrast, is intangible; it is the result of the application of human and mechanical efforts to people or objects. Examples of services include a concert performance by Lady Gaga, an online travel agency booking, a medical examination, child day care, real estate services, and martial arts lessons. An **idea** is a concept, philosophy, image, or issue. Ideas provide the psychological stimulation that aids in solving problems or adjusting to the environment. For example, Mothers Against Drunk Driving (MADD) promotes safe consumption of alcohol and stricter enforcement of laws against drunk driving.

It is helpful to think of a total product offering as having three interdependent elements: the core product itself, its supplemental features, and its symbolic or experiential benefits (see Figure 10.1). Consider that some people buy new tires for their basic utility (e.g., Goodyear), whereas some look for safety (e.g., Michelin), and others buy on the basis of brand name or exemplary performance (e.g., Pirelli). The core product consists of a product's fundamental utility or main benefit and usually addresses a fundamental need of the consumer. Broadband Internet services, for instance, offer speedy Internet access, but some buyers want additional features, such as wireless connectivity anywhere they go. The core product usually addresses some fundamental need of the consumer. When you buy bottled water, you can buy name brands such as Dasani and Aquafina or more exclusive brands like Fiji, Voss, or Evian. Regardless of price, each alternative will quench your thirst. Retailers such as Target and Walmart specialize in offering core products (store brands and generics) of a generally acceptable quality level at competitive prices.

good

A tangible physical entity

service

An intangible result of the application of human and mechanical efforts to people or objects

idea

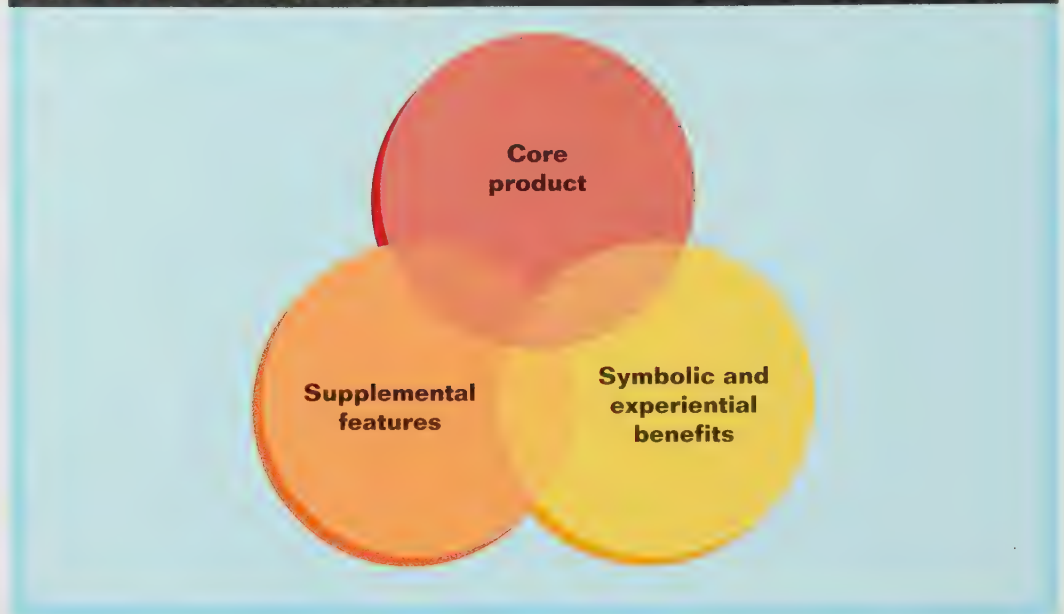
A concept, philosophy, image, or issue



© The Weinstein Company/Courtesy Everett Collection

What Is a Product?

Movies provide entertainment as a service and are considered products.

FIGURE 10.1 The Total Product

A product's supplemental features provide added value or attributes in addition to the core utility or benefit. Supplemental products also can provide installation, delivery, training, and financing. These supplemental attributes are not required to make the core product function effectively, but they help to differentiate one product brand from another. In the U.S. Hotel Chain Survey by *Business Travel News* magazine, Ritz-Carlton Hotels topped the survey's deluxe tier segment by changing their approach to food; they now offer a differentiated dining experience through partnerships with well-known chefs such as Wolfgang Puck. In addition, Ritz-Carlton offers unprecedented group travel arrangements by providing free nights and free Internet usage.² These supplemental features add real value to the core product of overnight hotel stays.

Finally, customers also receive benefits based on their experiences with the product. In addition, many products have symbolic meaning for buyers. For some consumers, the simple act of shopping gives symbolic value and improves their attitudes. Some stores capitalize on this value by striving to create a special experience for customers. You can buy stuffed toys at many retailers, but at Build-A-Bear, you can choose the type of animal, stuff it yourself, give it a heart, and create a name complete with a birth certificate, as well as give the toy a bath and clothe and accessorize it. The atmosphere and décor of a retail store, the variety and depth of product choices, the customer support, and even the sounds and smells all contribute to the experiential element. When you check into a Hotel Monaco, not only do you get a great room with down comforters, bed toppers, and pillows, but you can also "check out" a fish as your companion during your stay. The Hotel Monaco provides a "pet-friendly" environment for guests. Many customers credit the Hotel Monaco with providing a differentiated, enjoyable stay and become loyal customers. In addition, the Hotel Monaco chain offers complementary wine happy hours to allow guests to socialize in their lobbies. These symbolic and experiential features are all part of the Hotel Monaco total product.

Thus, when buyers purchase a product, they are really buying the benefits and satisfaction they think the product will provide. A Rolex or Patek Philippe watch is purchased to make a statement of success, not just for telling time. Services in particular are purchased on the basis of expectations. Expectations, suggested by images, promises, and symbols, as well as processes and delivery, help consumers to make judgments about tangible and intangible

products. For example, some restaurants offer 10- to 15-minute lunch guarantees to assure customers that they are an efficient and quick place to dine. Products are formed by the activities and processes that help to satisfy expectations. Starbucks did not create the coffee shop, but it did make high-quality coffee beverages readily available around the world, with standardized service and stylish, inviting stores. Often symbols and cues are used to make intangible products more tangible, or real, to the consumer. Allstate Insurance Company, for example, uses giant hands to symbolize security, strength, and friendliness.

Classifying Products

Products fall into one of two general categories. Products purchased to satisfy personal and family needs are **consumer products**. Those bought to use in a firm's operations, to resell, or to make other products are **business products**. Consumers buy products to satisfy their personal wants, whereas business buyers seek to satisfy the goals of their organizations.

Product classifications are important because they may influence pricing, distribution, and promotion decisions. In this section, we examine the characteristics of consumer and business products and explore the marketing activities associated with some of these products.

CONSUMER PRODUCTS

The most widely accepted approach to classifying consumer products is based on characteristics of consumer buying behavior. It divides products into four categories: convenience, shopping, specialty, and unsought products. However, not all buyers behave in the same way when purchasing a specific type of product. Thus, a single product can fit into several categories. To minimize this problem, marketers think in terms of how buyers *generally* behave when purchasing a specific item. Examining the four traditional categories of consumer products can provide further insight.

Convenience Products

Convenience products are relatively inexpensive, frequently purchased items for which buyers exert only minimal purchasing effort. They range from bread, soft drinks, and chewing gum to gasoline and newspapers. The buyer spends little time planning the purchase or comparing available brands or sellers. Even a buyer who prefers a specific brand will generally choose a substitute if the preferred brand is not conveniently available. A convenience product is normally marketed through many retail outlets, such as 7-Eleven, ExxonMobil, and supermarkets. Starbucks coffee is available in airports, hotels, and grocery stores, and many of the Starbucks company-owned stores now have drive-through lanes to ensure that customers can get coffee whenever or wherever the desire strikes.³ Because sellers experience high inventory turnover, per-unit gross margins can be relatively low. Producers of convenience products, such as Altoid mints, expect little promotional effort at the retail level and thus must provide it themselves with advertising and sales promotion. Packaging and displays are also important because many convenience items are available only on a self-service basis at the retail level, and thus the package plays a major role in selling the product.

Shopping Products

Shopping products are items for which buyers are willing to expend considerable effort in planning and making the purchase. Buyers spend much time comparing stores and brands with respect to prices, product features, qualities, services, and perhaps warranties. Shoppers may compare products at a number of outlets such as Best Buy, Amazon.com,

consumer products

Products purchased to satisfy personal and family needs

business products

Products bought to use in an organization's operations, to resell, or to make other products

convenience products

Relatively inexpensive, frequently purchased items for which buyers exert minimal purchasing effort

shopping products

Items for which buyers are willing to expend considerable effort in planning and making purchases

Convenience Product or Shopping Product?

Dreyer's is a convenience purchase, whereas people spend considerable time and effort selecting furniture.



© Dreyer's/Edy's® Grand Ice Cream/Adam Levey Photography



ddc

© ddc domus design collection

Lowe's, or Home Depot. Appliances, bicycles, furniture, stereos, cameras, and shoes exemplify shopping products. These products are expected to last a fairly long time and are purchased less frequently than convenience items. Shopping products require fewer retail outlets than convenience products. Because shopping products are purchased less frequently, inventory turnover is lower, and marketing channel members expect to receive higher gross margins. In certain situations, both shopping products and convenience products may be marketed in the same location. Both Target and Walmart carry shopping products such as televisions, computers, and cameras as well as groceries and other convenience products.

To market a shopping product effectively, a marketer considers several key issues. Although large sums of money may be required to advertise shopping products, an even larger percentage of resources are likely to be used for personal selling. The producer and the marketing channel members usually expect some cooperation from one another with respect to providing parts and repair services and performing promotional activities. Marketers should consider these issues carefully so that they can choose the best course for promoting these products.

Specialty Products

Specialty products possess one or more unique characteristics, and generally buyers are willing to expend considerable effort to obtain them. Buyers actually plan the purchase of a specialty product; they know exactly what they want and will not accept a substitute. Examples of specialty products include a Mont Blanc pen and a one-of-a-kind piece of baseball memorabilia, such as a ball signed by Babe Ruth. When searching for specialty products, buyers do not compare alternatives. They are concerned primarily with finding an outlet that has the preselected product available. Racing fans interested in a high-status way to commemorate attending the Indy 500 might find the specially designed Tag Heuer Indy 500 wristwatch very attractive.

The fact that an item is a specialty product can affect a firm's marketing efforts in several ways. Specialty products are often distributed through a limited number of retail outlets. Like shopping products, they are purchased infrequently, causing lower inventory

specialty products

Items with unique characteristics that buyers are willing to expend considerable effort to obtain

turnover and thus requiring relatively high gross margins. However, just because specialty products are purchased less frequently does not necessarily make them less profitable. For example, the Swatch Group, the maker of a European line of wrist watches, sells significantly more limited edition “swatches” than traditional ones.

Unsought Products

Unsought products are products purchased when a sudden problem must be solved, products of which customers are unaware, and products that people do not necessarily think of purchasing. Emergency medical services and automobile repairs are examples of products needed quickly to solve a problem. A consumer who is sick or injured has little time to plan to go to an emergency medical center or hospital. Likewise, in the event of a broken fan belt on the highway, a consumer likely will seek the nearest auto repair facility or call AAA to get back on the road as quickly as possible. In such cases, speed and problem resolution are far more important than price and other features buyers might normally consider if they had more time for making decisions. Companies such as ServiceMaster, which markets emergency services such as disaster recovery, carpet cleaning, and plumbing repair, are making the purchases of these unsought products more bearable by building trust with consumers through recognizable brands (ServiceMaster Clean and Rescue Rooter) and superior functional performance.

BUSINESS PRODUCTS

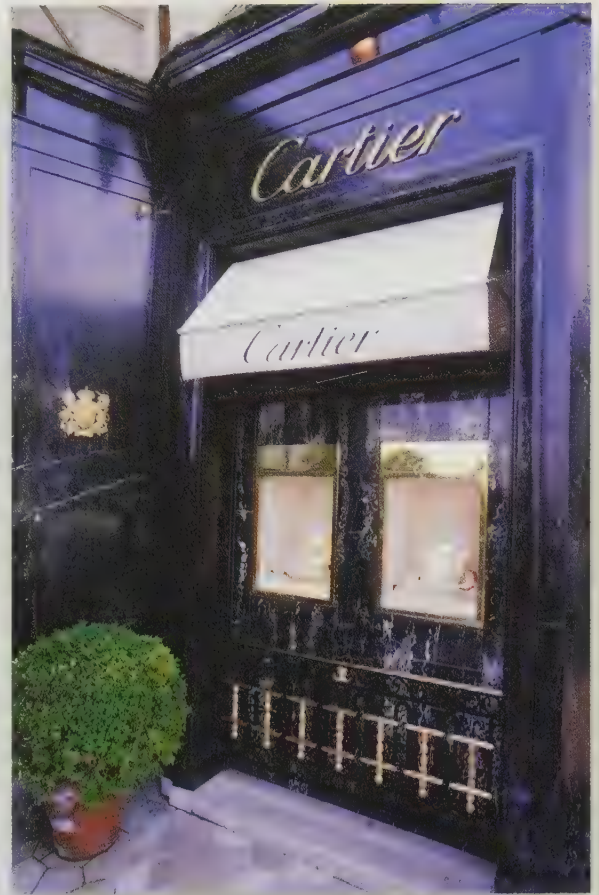
Business products are usually purchased on the basis of an organization’s goals and objectives. Generally, the functional aspects of the product are more important than the psychological rewards sometimes associated with consumer products. Business products can be classified into seven categories according to their characteristics and intended uses: installations; accessory equipment; raw materials; component parts; process materials; maintenance, repair, and operating (MRO) supplies; and business services.

Installations

Installations include facilities, such as office buildings, factories, and warehouses, and major equipment that are nonportable, such as production lines and very large machines. Normally, installations are expensive and intended to be used for a considerable length of time. Because they are so expensive and typically involve a long-term investment of capital, purchase decisions often are made by high-level management. Marketers of installations frequently must provide a variety of services, including training, repairs, maintenance assistance, and even aid in financing such purchases.

Accessory Equipment

Accessory equipment does not become part of the final physical product but is used in production or office activities. Examples include file cabinets, fractional-horsepower motors, calculators, and tools. Compared with major equipment, accessory items usually are much



Specialty Products

High-end jewelers like Cartier produce luxury watches for high-income consumers.

unsought products

Products purchased to solve a sudden problem, products of which customers are unaware, and products that people do not necessarily think about buying

installations

Facilities and nonportable major equipment

accessory equipment

Equipment that does not become part of the final physical product but is used in production or office activities

Green Marketing



The Nissan Leaf: A Zero-Emissions Car for the Mass Market

Nissan is pegging its hopes on its fully electric vehicle (EV), the Nissan Leaf. Although EVs have been around for decades, poorly performing batteries and charging issues have negatively impacted sales. Nissan hopes to change this image with what it believes to be a superior technology. According to the company, the Leaf will run for 100 miles of city-based driving before requiring a charge, making it more practical for drivers. Owners install in-home charging systems costing a few thousand dollars and can then

recharge their cars overnight. Nissan is also partnering with states around the country to eventually install public charging stations. Although this sounds simple, homes may require additional electric upgrades, and owners must deal with local government regulations. To ease the burden to consumers, the federal government offers a \$7,500 tax credit, and certain states offer additional incentives. Initial demand for the Leaf looks promising. However, last-minute delivery delays might discourage early adopters of the product.^a

cheaper, purchased routinely with less negotiation, and treated as expense items rather than capital items because they are not expected to last as long. More outlets are required for distributing accessory equipment than for installations, but sellers do not have to provide the multitude of services expected of installations marketers.

Raw Materials

Raw materials are the basic natural materials that actually become part of a physical product. They include minerals, chemicals, agricultural products, and materials from forests and oceans. Corn, for example, is a raw material found in many different products, including food, beverages (as corn syrup), and even fuel (ethanol). Raw materials are usually bought and sold according to grades and specifications and in relatively large quantities.

Component Parts

Component parts become part of the physical product and are either finished items ready for assembly or products that need little processing before assembly. Although they become part of a larger product, component parts often can be identified and distinguished easily. Spark plugs, tires, clocks, brakes, and head lights are all component parts of an automobile. German-based Robert Bosch GmbH, the world's largest auto parts maker, supplies 30 percent of the 46 million antilock brakes installed in vehicles worldwide.⁴ Buyers purchase such items according to their own specifications or industry standards. They expect the parts to be of a specified quality and delivered on time so that production is not slowed or stopped. Producers that are primarily assemblers, such as most lawn mower and computer manufacturers, depend heavily on suppliers of component parts.

Process Materials

Process materials are used directly in the production of other products. Unlike component parts, however, process materials are not readily identifiable. For example, a salad dressing manufacturer includes vinegar in its salad dressing. The vinegar is a process material because it is included in the salad dressing but is not identifiable. As with component parts, process materials are purchased according to industry standards or the purchaser's specifications.

raw materials

Basic natural materials that become part of a physical product

component parts

Items that become part of the physical product and are either finished items ready for assembly or products that need little processing before assembly

process materials

Materials that are used directly in the production of other products but are not readily identifiable

MRO Supplies

MRO supplies are maintenance, repair, and operating items that facilitate production and operations but do not become part of the finished product. Paper, pencils, oils, cleaning agents, and paints are in this category. Although you might be familiar with Tide, Downy, and Febreze as consumer products, to restaurants and hotels, they are MRO supplies needed to wash dishes and launder sheets and towels. Procter & Gamble is increasingly targeting business customers in the \$3.5 billion market for janitorial and housekeeping products.⁵ MRO supplies are commonly sold through numerous outlets and are purchased routinely. To ensure supplies are available when needed, buyers often deal with more than one seller.

Business Services

Business services are the intangible products that many organizations use in their operations. They include financial, legal, marketing research, information technology, and janitorial services. Firms must decide whether to provide their own services internally or obtain them from outside the organization. This decision depends on the costs associated with each alternative and how frequently the services are needed. As an example, Accenture focuses on services that help companies with business processes and management systems and with integrating advanced technology into their operations.



Business Products

Accenture provides services to businesses.

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Product Line and Product Mix

Marketers must understand the relationships among all the products of their organization to coordinate the marketing of the total group of products. The following concepts help to describe the relationships among an organization's products.

A **product item** is a specific version of a product that can be designated as a distinct offering among an organization's products. An Abercrombie & Fitch polo shirt represents a product item. A **product line** is a group of closely related product items that are considered to be a unit because of marketing, technical, or end-use considerations. Procter & Gamble's Febreze product line, which recently reached the \$1 billion mark in annual sales, includes air-freshener sprays for cars, sportswear, pets, allergens, and carpets. Additionally, the Febreze Home Collection includes candles, room spray, and scented luminaries.⁶ The exact boundaries of a product line (although sometimes blurred) are usually indicated by the use of descriptive terms such as "frozen dessert product line" or "shampoo product line." Specific product items in a product line, such as different dessert flavors or shampoos for oily and dry hair, usually reflect the desires of different target markets or the different needs of consumers. Thus, to develop the optimal product line, marketers must understand buyers' goals. Firms with high market share are likely to expand their product lines aggressively, as are marketers with relatively high prices or limited product lines.⁷ This pattern can be seen in the personal computer industry, where companies are likely to expand their product lines when industry barriers are low or perceived market opportunities exist.

MRO supplies

Maintenance, repair, and operating items that facilitate production and operations but do not become part of the finished product

business services

The intangible products that many organizations use in their operations

product item

A specific version of a product that can be designated as a distinct offering among a firm's products

product line

A group of closely related product items viewed as a unit because of marketing, technical, or end-use considerations

Product Line vs. Product Mix

Edy's Ice Cream represents a product line with a wide variety of flavors. Burberry produces several product lines, including shoes, watches, and sunglasses.



© Dreyer's/Edy's® Grand Ice Cream



Courtesy of the Advertising Archives

product mix

The total group of products that an organization makes available to customers

width of product mix

The number of product lines a company offers

depth of product mix

The average number of different product items offered in each product line

A **product mix** is the composite, or total, group of products that an organization makes available to customers. Procter & Gamble's product mix comprises all the health-care, beauty-care, laundry and cleaning, food and beverage, paper, cosmetic, and fragrance products the firm manufactures. The **width of product mix** is measured by the number of product lines a company offers. General Electric offers multiple product lines, including consumer products such as housewares, health-care products such as molecular imaging, and commercial engines for the military.⁸ The **depth of product mix** is the average number of different product items offered in each product line. Figure 10.2 shows the width and depth of part of Procter & Gamble's product mix. Procter & Gamble is known for using distinctive branding, packaging, segmentation, and consumer advertising to promote individual items in its detergent product line. Tide, Bold, Gain, Cheer, and Era—all Procter & Gamble detergents—share the same distribution channels and similar manufacturing facilities, but each is promoted as a distinctive product, adding depth to the product line.

FIGURE 10.2 The Concepts of Product Mix Width and Depth Applied to U.S. Procter & Gamble Products

	Laundry detergents	Toothpastes	Bar soaps	Deodorants	Shampoos	Tissue/Towel
Depth	Ivory Snow 1930	Gleem 1952	Ivory 1879	Old Spice 1948	Pantene 1947	Charmin 1928
	Dreft 1933	Crest 1955	Camay 1926	Secret 1956	Head & Shoulders 1961	Puffs 1960
	Tide 1946		Zest 1952	Sure 1972	Vidal Sassoon 1974	Bounty 1965
	Cheer 1950		Safeguard 1963		Pert Plus 1979	
	Bold 1965		Oil of Olay 1993		Ivory 1983	
	Gain 1966				Infusium 23 1986	
	Era 1972				Physique 2000	
	Febreze Clean Wash 2000				Herbal Essence 2001	
	Width					

Product Life Cycles and Marketing Strategies

Just as biological cycles progress from birth through growth and decline, so do product life cycles. As Figure 10.3 shows, a **product life cycle** has four major stages: introduction, growth, maturity, and decline. As a product moves through its cycle, the strategies relating to competition, pricing, distribution, promotion, and market information must be evaluated periodically and possibly changed. Astute marketing managers use the life-cycle concept to make sure that the introduction, alteration, and deletion of products are timed and executed properly. By understanding the typical life-cycle pattern, marketers can maintain profitable product mixes.

INTRODUCTION

The **introduction stage** of the product life cycle begins at a product's first appearance in the marketplace, when sales start at zero and profits are negative. Profits are below zero because initial revenues are low, and the company generally must cover large expenses for product development, promotion, and distribution. Notice in Figure 10.3 how sales should move upward from zero, and profits also should move upward from a position in which they are negative because of high expenses.

Developing and introducing a new product can mean an outlay of millions. Cadbury Schweppes spent two years and millions of dollars to develop Trident Splash, a sugarfree gum with a candy shell and a liquid center, which it markets to adults for 99 cents a package.⁹ And although the importance of new products is significant, the risk of new-product failure is quite high, depending on the industry. Consider the development of frozen vegetables. Clarence Birdseye invented the “quick-freeze machine” that created a new product, “frozen vegetables,” in 1920. A completely new product, the frozen vegetables could not be

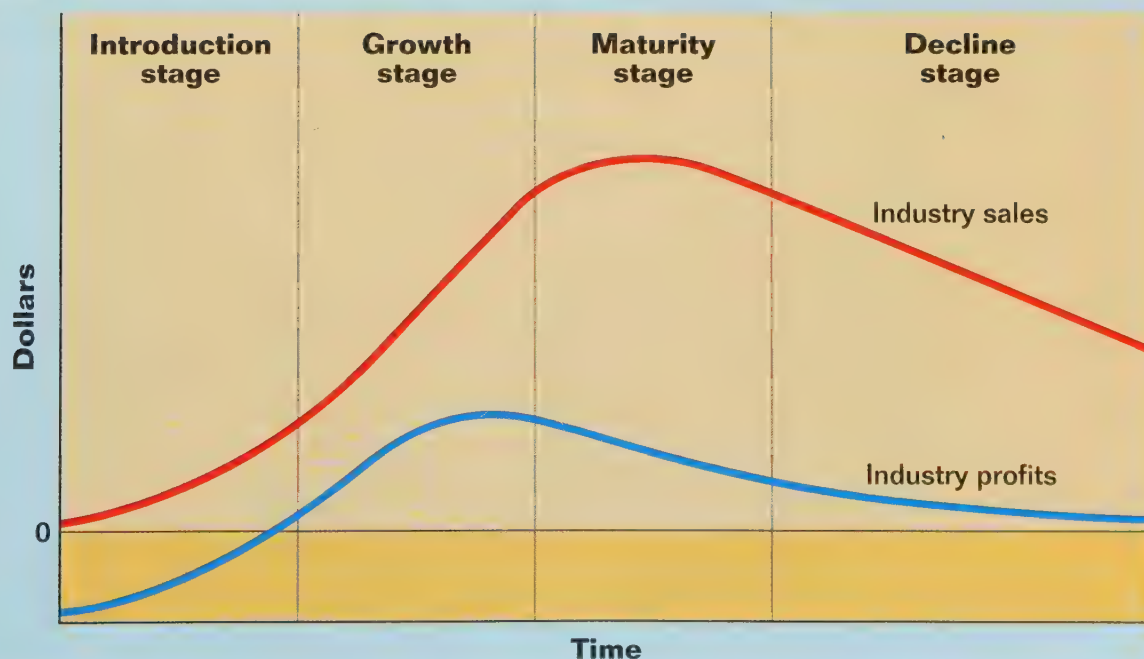
product life cycle

The progression of a product through four stages: introduction, growth, maturity, and decline

introduction stage

The initial stage of a product's life cycle—its first appearance in the marketplace—when sales start at zero and profits are negative

FIGURE 10.3 The Four Stages of the Product Life Cycle



distributed or sold until Birds Eye developed super-insulated railcars for transportation and retail freezer cases for display. Today, Birds Eye still has 27 percent of the \$2.8 billion frozen vegetable market.¹⁰

Because of high risks and costs, few product introductions represent revolutionary inventions. More typically, product introductions involve a new variety of packaged convenience food, a new model of automobile, or a new fashion in clothing rather than a major product innovation. The more market-oriented the firm, the more likely it will be to launch innovative, new-to-the-market products.¹¹

Potential buyers must be made aware of new-product features, uses, and advantages. Efforts to highlight a new product's value can create a foundation for building brand loyalty and customer relationships.¹² Two difficulties may arise at this point. First, sellers may lack the resources, technological knowledge, and marketing know-how to launch the product successfully. Entrepreneurs without large budgets still can attract attention, however, by giving away free samples, as Essence of Vali does with its aromatherapy products. Another technique is to gain visibility through media appearances. Dave Dettman, a.k.a. Dr. Gadget, specializes in promoting new products on television news and talk programs. Companies such as Sony, Disney, Warner Brothers, and others have hired Dr. Gadget to help with the introduction of new products.¹³ Second, the initial product price may have to be high to recoup expensive marketing research or development costs. Given these difficulties, it is not surprising that many products never get beyond the introduction stage.

Most new products start off slowly and seldom generate enough sales to bring immediate profits. Less than 10 percent of new products succeed in the marketplace, and 90 percent of successes come from a handful of companies.¹⁴ Dell Computers' customization processes explain why it has secured such a large share of the computer industry.¹⁵ As buyers learn about the new product, marketers should be alert for product weaknesses and make corrections quickly to prevent the product's early demise. Marketing strategy should be designed to attract the segment that is most interested in the product. As the sales curve moves upward, the breakeven point is reached, and as competitors enter the market, the growth stage begins.

growth stage

The stage of a product's life cycle when sales rise rapidly and profits reach a peak and then start to decline

Entrepreneurship in Marketing



Beanitos: Bean Brand Foods

More than 20 years ago, Doug Foreman was inspired to create the popular Guiltless Gourmet baked chips after his father suffered a heart attack. The company was sold in 1994, but Foreman's own weight problem has brought him back to create Beanitos. Chips made from beans may not sound appetizing, but they appear to be catching on. When creating Beanitos, Foreman researched weight-loss concepts and was overwhelmed by the benefits of a corn-free, low glycemic index diet. He found that Americans eat too much corn, consuming empty calories and potentially contributing to issues from diabetes to obesity. Foreman then hit upon beans as a highly beneficial ingredient. Beanitos chips are free of corn, gluten, potatoes, and trans fats. They are high in fiber and, thanks to a natural proprietary process, gas free. In addition, Foreman is working on Beanitos' non-GMO certification. Beanitos is an innovative product that combines healthy ingredients, great taste, and a fun snack food experience.^b

GROWTH

During the **growth stage**, sales rise rapidly; profits reach a peak and then start to decline (see Figure 10.3). The growth stage is critical to a product's survival because competitive reactions to the product's success during this period will affect the product's life expectancy. When Splenda, a sugar substitute, was introduced, sales rose quickly as consumers switched from other low-calorie sweeteners. Sales rose even more quickly when restaurants such as McDonald's and Starbucks began offering Splenda in single-serving packets.¹⁶

Profits begin to decline late in the growth stage as more competitors enter the market, driving prices down and creating the need for heavy promotional expenses. At this point, a typical marketing strategy encourages strong brand loyalty and competes with aggressive emulators of the product. During the growth stage, the organization tries to strengthen its market share and develop a competitive niche by emphasizing the product's benefits. Marketers should also analyze competing brands' product positions relative to their own

brands and take corrective action. Aggressive pricing, including price cuts, is also typical during this stage. As sales increase, management must support the momentum by adjusting the marketing strategy. The goal is to establish and fortify the product's market position by encouraging brand loyalty. To achieve greater market penetration, segmentation may have to be used more intensely. This requires developing product variations to satisfy the needs of people in several different market segments. Apple, for example, introduced variations on its wildly popular iPod MP3 player, including the affordable iPod shuffle, the smaller iPod nano, the iPod touch with a touchscreen surface, and the iPad, all of which has helped to expand Apple's market penetration in the competitive MP3 player industry.

Gaps in geographic market coverage should be filled during the growth period. As a product gains market acceptance, new distribution outlets usually become easier to obtain. Marketers sometimes move from an exclusive or a selective exposure to a more intensive network of dealers to achieve greater market penetration. Marketers must also make sure the physical distribution system is running efficiently so that customers' orders are processed accurately and delivered on time.

Promotion expenditures may be slightly lower than during the introductory stage but are still quite substantial. As sales increase, promotion costs should drop as a percentage of total sales. A falling ratio between promotion expenditures and sales should contribute significantly to increased profits. The advertising messages should stress brand benefits. Coupons and samples may be used to increase awareness as well as market share.

MATURITY

During the **maturity stage**, the sales curve peaks and starts to decline, and profits continue to fall (see Figure 10.3). Laptops have begun to enter the maturity stage, especially as many consumers are opting to purchase tablets and netbooks instead.¹⁷ This stage is characterized by intense competition because many brands are now in the market. Competitors emphasize improvements and differences in their versions of the product. As a result, during the maturity stage, weaker competitors are squeezed out of the market.

maturity stage

The stage of a product's life cycle when the sales curve peaks and starts to decline as profits continue to fall



Product Growth

New products like Colgate Total create an opportunity to grow market share.

During the maturity phase, the producers who remain in the market are likely to change their promotional and distribution efforts. Advertising and dealer-oriented promotions are typical during this stage of the product life cycle. Marketers also must take into account that as the product reaches maturity, buyers' knowledge of it attains a high level. Consumers are no longer inexperienced generalists; instead, they are experienced specialists. Marketers of mature products sometimes expand distribution into global markets. Often the products have to be adapted to fit differing needs of global customers more precisely.

Because many products are in the maturity stage of their life cycles, marketers must know how to deal with these products and be prepared to adjust their marketing strategies. There are many approaches to altering marketing strategies during the maturity stage. To increase the sales of mature products, marketers may suggest new uses for them. Arm & Hammer has boosted demand for its baking soda by this method, providing multiple uses for this product.

As customers become more experienced and knowledgeable about products during the maturity stage (particularly about business products), the benefits they seek may change as well, necessitating product modifications. Consider that traditional truck-based sport utility vehicles, such as the Ford Explorer and GMC Tahoe, have reached maturity and their sales are beginning to decline. Facing rising gasoline costs, consumers seem more interested in "crossovers": car-based utility vehicles like the Chevrolet Equinox, Honda CR-V, Audi Q5, and Volvo XC60. Automakers responded to this interest with more models and features. With their improved ride, handling, and fuel economy, crossovers are in a rapid sales growth stage at the expense of traditional SUVs.¹⁸

Three general objectives can be pursued during the maturity phase:

1. *Generate cash flow.* This is essential for recouping the initial investment and generating excess cash to support new products.
2. *Maintain share of market.* Companies with marginal market share must decide whether they have a reasonable chance to improve their position or whether they should drop out.
3. *Increase share of customer.* Whereas *market share* refers to the total percentage of customers a firm holds, *share of customer* relates to the percentage of each customer's needs that the firm is meeting. For example, many banks have added new services (brokerage, financial planning, auto leasing, etc.) to gain more of each customer's financial services business. Likewise, many supermarkets are seeking to increase share of customer by adding services such as restaurants, movie rentals, banking, and dry cleaning to provide one-stop shopping for their customers' householder needs.¹⁹

During the maturity stage, marketers actively encourage resellers to support the product. Resellers may be offered promotional assistance in lowering their inventory costs. In general, marketers go to great lengths to serve resellers and provide incentives for selling their brand.

Maintaining market share during the maturity stage requires moderate, and sometimes large, promotion expenditures. Advertising messages focus on differentiating a brand from the field of competitors, and sales promotion efforts may be aimed at both consumers and resellers.

A greater mixture of pricing strategies is used during the maturity stage. Strong price competition is likely and may ignite price wars. Firms also compete in other ways besides price, such as through product quality or services. In addition, marketers develop price flexibility to differentiate offerings in product lines. Markdowns and price incentives are common. Prices may have to be increased, however, if distribution and production costs rise.

DECLINE

During the **decline stage**, sales fall rapidly (see Figure 10.3). When this happens, the marketer considers pruning items from the product line to eliminate those not earning a profit. The marketer also may cut promotion efforts, eliminate marginal distributors,

decline stage

The stage of a product's life cycle when sales fall rapidly

and finally, plan to phase out the product. This can be seen in the decline in demand for most carbonated beverages, which has been continuing for several years as consumers turn away from higher-calorie soft drinks. Experts predict that soft-drink sales will continue to fall at least 1.5 percent each year for the next 5 to 10 years. This shift in consumer preferences are already changing the way companies produce and market bottled beverages, with companies expanding their offerings of juices, waters, and more healthful drink options.²⁰

In the decline stage, marketers must determine whether to eliminate the product or try to reposition it to extend its life. Usually a declining product has lost its distinctiveness because similar competing or superior products have been introduced. Competition engenders increased substitution and brand switching as buyers become insensitive to minor product differences. For these reasons, marketers do little to change a product's style, design, or other attributes during its decline. New technology or social trends, product substitutes, or environmental considerations also may indicate that the time has come to delete the product. Consider the incandescent light bulb. As consumers switch to "greener" compact fluorescent bulbs and LED lighting—increasingly prompted by government bans on incandescent bulbs—manufacturers are beginning to implement plans to phase them out of their product mixes.

During a product's decline, outlets with strong sales volumes are maintained, and unprofitable outlets are eliminated. An entire marketing channel may be eliminated if it does not contribute adequately to profits. An outlet not used previously, such as a factory outlet or Internet retailer, sometimes will be used to liquidate remaining inventory of an obsolete product. As sales decline, the product becomes more inaccessible, but loyal buyers seek out resellers who still carry it.

Spending on promotion efforts is usually reduced considerably. Advertising of special offers may slow the rate of decline. Sales promotions, such as coupons and premiums, may regain buyers' attention temporarily. As the product continues to decline, the sales staff shifts its emphasis to more profitable products. The marketing manager has two options during the decline stage: attempt to postpone the decline or accept its inevitability. Many firms lack the resources to renew a product's demand and are forced to consider harvesting or divesting the product or the strategic business unit (SBU). The *harvesting* approach employs a gradual reduction in marketing expenditures and a less resource-intensive marketing mix. A company adopting the *divesting* approach withdraws all marketing support from the declining product or SBU. It may continue to sell the product until losses are sustained, or it may arrange for another firm to acquire the product.



Product Decline

Traditional incandescent light bulbs are being made obsolete by more energy-efficient compact fluorescent light bulbs.

© Roger Allyn Lee/SuperStock

Product Adoption Process

Acceptance of new products—especially new-to-the-world products—usually doesn't happen overnight. In fact, it can take a very long time. People are sometimes cautious or even skeptical about adopting new products, as indicated by some of the remarks quoted in Table 10.1. Consumers

TABLE 10.1 Most New Ideas Have Their Skeptics

"I think there is a world market for maybe five computers."

—Thomas Watson, chairman of IBM, 1943

"This 'telephone' has too many shortcomings to be seriously considered as a means of communication. The device is inherently of no value to us."

—Western Union internal memo, 1876

"The wireless music box has no imaginable commercial value. Who would pay for a message sent to nobody in particular?"

—David Sarnoff's associates in response to his urgings for investment in the radio in the 1920s

"The concept is interesting and well formed, but in order to earn better than a C, the idea must be feasible."

—A Yale University management professor in response to Fred Smith's paper proposing reliable overnight delivery service (Smith went on to found Federal Express Corp.)

"Who the hell wants to hear actors talk?"

—H. M. Warner, Warner Brothers, 1927

"A cookie store is a bad idea. Besides, the market research reports say America likes crispy cookies, not soft and chewy cookies like you make."

—Banker's response to Debbie Fields's idea of starting Mrs. Fields' Cookies

"We don't like their sound, and guitar music is on the way out."

—Decca Recording Company rejecting the Beatles, 1962

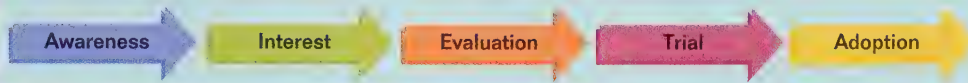
sometimes wait until the "second generation" of a new product to ensure a more reliable product experience. Customers who eventually accept a new product do so through an adoption process. Figure 10.4 details the product adoption process. The stages of the **product adoption process** are as follows:

1. *Awareness.* The buyer becomes aware of the product.
2. *Interest.* The buyer seeks information and is receptive to learning about the product.
3. *Evaluation.* The buyer considers the product's benefits and decides whether to try it, considering its value versus the competition.
4. *Trial.* The buyer examines, tests, or tries the product to determine if it meets his or her needs.
5. *Adoption.* The buyer purchases the product and can be expected to use it again whenever the need for this product arises.²¹

In the first stage, when individuals become aware that the product exists, they have little information about it and are not concerned about obtaining more. Consumers enter the interest stage when they are motivated to get information about the product's features, uses, advantages, disadvantages, price, or location. During the evaluation stage, individuals consider whether the product will satisfy certain criteria that are crucial to meeting their specific needs. In the trial stage, they use or experience the product for the first time, possibly by purchasing a small quantity, taking advantage of free samples, or borrowing the product from someone. Individuals move into the adoption stage by choosing a specific

product adoption process

The stages buyers go through in accepting a product

FIGURE 10.4 Product Adoption Process

product when they need a product of that general type. Entering the adoption process does not mean that the person will eventually adopt the new product. Rejection may occur at any stage, including the adoption stage. Both product adoption and product rejection can be temporary or permanent.

When an organization introduces a new product, people do not begin the adoption process at the same time, nor do they move through the process at the same speed. Of those who eventually adopt the product, some enter the adoption process rather quickly, whereas others start considerably later. For most products, there is also a group of nonadopters who never begin the process. For business marketers, success in managing production innovation, diffusion, and adoption requires great adaptability and significant effort in understanding customers.²²

Depending on the length of time it takes them to adopt a new product, consumers fall into one of five major adopter categories: innovators, early adopters, early majority, late majority, and laggards.²³ **Innovators** are the first to adopt a new product; they enjoy trying new products and tend to be venturesome. **Early adopters** choose new products carefully and are viewed as “the people to check with” by those in the remaining adopter categories. People in the **early majority** adopt just prior to the average person; they are deliberate and cautious in trying new products. Individuals in the **late majority** are quite skeptical of new products but eventually adopt them because of economic necessity or social pressure. **Laggards**, the last to adopt a new product, are oriented toward the past. They are suspicious of new products, and when they finally adopt the innovation, it may already have been replaced by a new product.

Branding

Marketers must make many decisions about products, including choices about brands, brand names, brand marks, trademarks, and trade names. A **brand** is a name, term, design, symbol, or any other feature that identifies one marketer’s product as distinct from those of other marketers. A brand may identify a single item, a family of items, or all items of that seller.²⁴ Some have defined a brand as not just the physical good, name, color, logo, or ad campaign, but everything associated with the product, including its symbolism and experiences.²⁵ For example, Hearts on Fire has branded a particular hearts and arrows cut for its diamonds, which maximizes their brilliance and fire—and allows Hearts on Fire diamonds to command a 15 to 20 percent premium over traditional diamonds.²⁶ A **brand name** is the part of a brand that can be spoken—including letters, words, and numbers—such as 7UP or V8. A brand name is often a product’s only distinguishing characteristic. Without the brand name, a firm could not differentiate its products. To consumers, a brand name is as fundamental as the product itself. Indeed, many brand names have become synonymous with the product, such as Scotch Tape, Xerox copiers, and FedEx delivery. Through promotional activities, the owners of these brand names try to protect them from being used as generic names for tape, photocopiers, and overnight shipping.

innovators

First adopters of new products

early adopters

Careful choosers of new products

early majority

Those adopting new products just before the average person

late majority

Skeptics who adopt new products when they feel it is necessary

laggards

The last adopters, who distrust new products

brand

A name, term, design, symbol, or any other feature that identifies one marketer’s product as distinct from those of other marketers

brand name

The part of a brand that can be spoken



© Finbarr Webster/Alamy

Brand Mark

The McDonald's arches are a well-known example of a brand mark.

The element of a brand that is not made up of words—often a symbol or design—is a **brand mark**. Examples of brand marks include McDonald's Golden Arches, Nike's "swoosh," and the stylized silhouette of Apple's logo. A **trademark** is a legal designation indicating that the owner has exclusive use of a brand or a part of a brand and that others are prohibited by law from its use. To protect a brand name or brand mark in the United States, an organization must register it as a trademark with the U.S. Patent and Trademark Office. In a typical year, the Patent and Trademark Office registers about 195,000 new trademarks.²⁷ Finally, a **trade name** is the full and legal name of an organization, such as Ford Motor Company, rather than the name of a specific product.

VALUE OF BRANDING

Both buyers and sellers benefit from branding. Brands help buyers identify specific products that they do and do not like, which, in turn, facilitates the purchase of items that satisfy their needs and reduces the time required to purchase the product. Without brands, product selection would be quite random because buyers could have no assurance that they were purchasing what they preferred. The purchase of certain brands can be a form of self-expression. For example, clothing brand names are important to many consumers. Names such as Abercrombie & Fitch, Polo Ralph Lauren, Hollister, Nike, and GUESS give manufacturers an advantage

in the marketplace. Especially when a customer is unable to judge a product's quality, a brand may symbolize a certain quality level to the customer, and in turn, the person lets that perception of quality represent the quality of the item. A brand helps to reduce a buyer's perceived risk of purchase. Customers want to purchase brands they trust, even if it is a private label brand like Walmart's Great Value brand, which recently underwent a re-branding effort and product improvement process while keeping costs down.²⁸ In addition, a psychological reward may come from owning a brand that symbolizes status such as Mercedes Benz or Porsche.

Sellers benefit from branding because each company's brands identify its products, which makes repeat purchasing easier for customers. Branding helps a firm introduce a new product that carries the name of one or more of its existing products because buyers are already familiar with the firm's existing brands. It facilitates promotional efforts because the promotion of each branded product indirectly promotes all other similarly branded products. Branding also fosters brand loyalty. To the extent that buyers become loyal to a specific brand, the company's market share for that product achieves a certain level of stability, allowing the firm to use its resources more efficiently. Once a firm develops some degree of customer loyalty for a brand, it can maintain a fairly consistent price rather than continually cutting the price to attract customers.

There is a cultural dimension to branding. Most brand experiences are individual, and each consumer confers his or her own social meaning onto brands. A brand's appeal is largely at an emotional level based on its symbolic image and key associations.²⁹ For some brands, such as Harley-Davidson, Saab, and Apple, this can result in an almost cult-like

brand mark

The part of a brand not made up of words

trademark

A legal designation of exclusive use of a brand

trade name

Full legal name of an organization

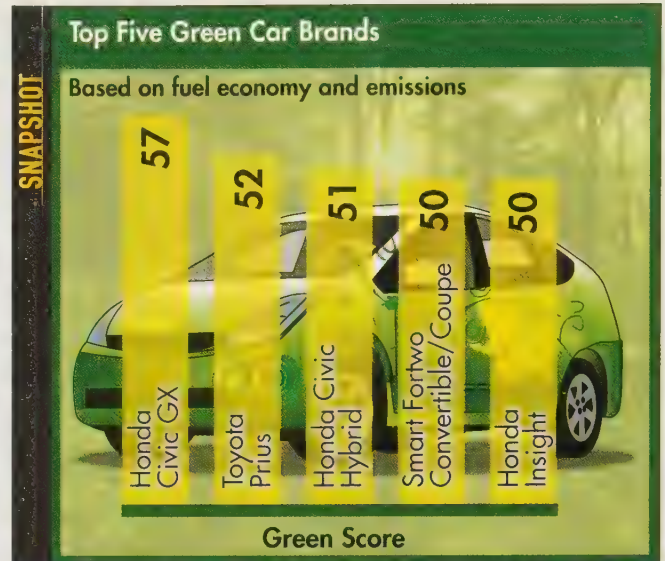
following. These brands often develop a community of loyal customers that communicate through get-togethers, online forums, blogs, podcasts, and other means. These brands may even help consumers to develop their identity and self-concept and serve as a form of self-expression. In fact, the term *cultural branding* has been used to explain how a brand conveys a powerful myth that consumers find useful in cementing their identities.³⁰ It is also important to recognize that because a brand exists independently in the consumer's mind, it is not controlled directly by the marketer. Every aspect of a brand is subject to a consumer's emotional involvement, interpretation, and memory. By understanding how branding influences purchases, marketers can foster customer loyalty.³¹

BRAND EQUITY

A well-managed brand is an asset to an organization. The value of this asset is often referred to as brand equity. **Brand equity** is the marketing and financial value associated with a brand's strength in a market. Besides the actual proprietary brand assets, such as patents and trademarks, four major elements underlie brand equity: brand name awareness, brand loyalty, perceived brand quality, and brand associations (see Figure 10.5).³²

Being aware of a brand leads to brand familiarity, which in turn results in a level of comfort with the brand. A familiar brand is more likely to be selected than an unfamiliar brand because the familiar brand often is viewed as more reliable and of more acceptable quality. The familiar brand is likely to be in a customer's consideration set, whereas the unfamiliar brand is not.

Brand loyalty is a customer's favorable attitude toward a specific brand. If brand loyalty is strong enough, customers may purchase this brand consistently when they need a product in that product category. Customer satisfaction with a brand is the most common reason



Source: American Council for an Energy-Efficient Economy, *Greenest Vehicles of 2010*, January 19, 2010, www.greencars.org/highlights10.pdf.

brand equity

The marketing and financial value associated with a brand's strength in a market

brand loyalty

A customer's favorable attitude toward a specific brand

FIGURE 10.5 Major Elements of Brand Equity



Source: Adapted from The Free Press, a division of Simon & Schuster Adult Publishing Group, from *Managing Brand Equity: Capitalizing on the Value of a Brand Name*, by David A. Aaker; Copyright © 1991 by David A. Aaker. All rights reserved.

for loyalty to that brand.³³ Development of brand loyalty in a customer reduces his or her risks and shortens the time spent buying the product. However, the degree of brand loyalty for products varies from one product category to another. It is challenging to develop brand loyalty for some products, such as bananas, because customers can readily judge the quality of these products and do not need to refer to a brand as an indicator of quality. Brand loyalty also varies by country. Customers in France, Germany, and the United Kingdom tend to be less brand-loyal than U.S. customers.

There are three degrees of brand loyalty: recognition, preference, and insistence. **Brand recognition** occurs when a customer is aware that the brand exists and views it as an alternative purchase if the preferred brand is unavailable or if the other available brands are unfamiliar. This is the mildest form of brand loyalty. The term *loyalty* is clearly used very loosely here. **Brand preference** is a stronger degree of brand loyalty. A customer definitely prefers one brand over competitive offerings and will purchase this brand if it is available. However, if the brand is not available, the customer will accept a substitute brand rather than expending additional effort finding and purchasing the preferred brand. When **brand insistence** occurs, a customer strongly prefers a specific brand, will accept no substitute, and is willing to spend a great deal of time and effort to acquire that brand. If a brand-insistent customer goes to a store and finds the brand unavailable, he or she will seek the brand elsewhere rather than purchase a substitute brand. Brand insistence also can apply to service products such as Hilton Hotels or sports teams such as the Chicago Bears or the Dallas Cowboys. Brand insistence is the strongest degree of brand loyalty; it is a brander's dream. However, it is the least common type of brand loyalty.

Brand loyalty is an important component of brand equity because it reduces a brand's vulnerability to competitors' actions. It allows an organization to keep its existing customers and avoid spending significant resources to gain new ones. Loyal customers provide brand visibility and reassurance to potential new customers. And because customers expect their brands to be available when and where they shop, retailers strive to carry the brands known for their strong customer following.

Customers associate a particular brand with a certain level of overall quality. A brand name may be used as a substitute for actual judgment of quality. In many cases, customers cannot actually judge the quality of the product for themselves and instead must rely on the brand as a quality indicator. For instance, Toyota was able to survive as a company, despite the massive recalls that affected several million vehicles, because of its historically high perceived brand quality. Even though the recalls were a huge mark against the brand, the company's loyalists and previously perceived high brand quality enabled it to survive.³⁴ Perceived high brand quality helps to support a premium price, allowing a marketer to avoid severe price competition. Also, favorable perceived brand quality can ease the introduction of brand extensions because the high regard for the brand likely will translate into high regard for the related products.

The set of associations linked to a brand is another key component of brand equity. At times, a marketer works to connect a particular lifestyle or, in some instances, a certain personality type with a specific brand. For example, in an effort to revitalize its brand image, Kodak has begun hiring hip-hop endorsers for its camera products. The company hopes that a new hip image can change the way that younger customers associate with its cameras.³⁵ These types of brand associations contribute significantly to the brand's equity. Brand associations sometimes are facilitated by using trade characters, such as the Jolly Green Giant, the Pillsbury Dough Boy, and the Snuggle Bear. Placing these trade characters in advertisements and on packages helps consumers to link the ads and packages with the brands.

Although difficult to measure, brand equity represents the value of a brand to an organization. Table 10.2 lists the top 10 brands with the highest economic value. Any company that owns a brand listed in Table 10.2 would agree that the economic value of that brand is likely to be the greatest single asset in the organization's possession.

brand recognition

A customer's awareness that the brand exists and is an alternative purchase

brand preference

The degree of brand loyalty in which a customer prefers one brand over competitive offerings

brand insistence

The degree of brand loyalty in which a customer strongly prefers a specific brand and will accept no substitute

TABLE 10.2 The 10 Most Valuable Brands in the World

Rank	Brand	Brand Value (\$ Millions)
1	Apple	\$ 153,285
2	Google	111,498
3	IBM	100,849
4	McDonald's	81,016
5	Microsoft	78,243
6	Coca-Cola	73,752
7	AT&T	69,916
8	Marlboro	67,522
9	China Mobile	57,326
10	GE	50,318

Source: "Brandz Top 100 Most Valuable Global Brands 2011," *Milward Brown Optimor*, p. 12, www.milwardbrown.com/Libraries/Optimor_BrandZ_Files/2011_BrandZ_Top100_Chart.sflb.ashx (accessed July 6, 2011).

TYPES OF BRANDS

There are three categories of brands: manufacturer, private distributor, and generic. **Manufacturer brands** are initiated by producers and ensure that producers are identified with their products at the point of purchase—for example, Green Giant, Dell Computer, and Levi's jeans. A manufacturer brand usually requires a producer to become involved in distribution, promotion, and to some extent, pricing decisions.

Private distributor brands (also called *private brands*, *store brands*, or *dealer brands*) are initiated and owned by resellers—wholesalers or retailers. The major characteristic of private brands is that the manufacturers are not identified on the products. Retailers and wholesalers use private distributor brands to develop more efficient promotion, generate higher gross margins, and change store image. Despite the many strong national brands available to consumers, the top-selling consumer brand on this continent is Walmart's private label brand, Great Value.³⁶ Private distributor brands give retailers or wholesalers freedom to purchase products of a specified quality at the lowest cost without disclosing the identities of the manufacturers. Wholesaler brands include IGA (Independent Grocers' Alliance) and Topmost (General Grocer). Familiar retailer brand names include Sears's Kenmore and JCPenney's Arizona. Many successful private brands are distributed nationally. Kenmore appliances are as well known as most manufacturer brands. Sometimes retailers with successful private distributor brands start manufacturing their own products to gain more control over product costs, quality, and design in the hope of increasing profits. Private labels now account for one out of every four product items sold in supermarkets, drugstores, and mass merchandisers, totaling some \$88 billion of retail business.³⁷ Supermarket private brands are popular globally, too.

Some marketers of traditionally branded products have embarked on a policy of not branding, often called *generic branding*. **Generic brands** indicate only the product category (such as aluminum foil) and do not include the company name or other identifying terms. Generic brands usually are sold at lower prices than comparable branded items. Although at one time generic

manufacturer brands

Brands initiated by producers

private distributor brands

Brands initiated and owned by resellers

generic brands

Brands indicating only the product category



Mark Stehr/AP Images for Oscar Mayer

Brand Loyalty

Oscar Mayer hot dogs are an example of a product with loyal customers.

brands may have represented as much as 10 percent of all retail grocery sales, today they account for less than one-half of 1 percent.

SELECTING A BRAND NAME

Marketers consider several factors in selecting a brand name. First, the name should be easy for customers (including foreign buyers if the firm intends to market its products in other countries) to say, spell, and recall. Short, one-syllable names, such as Cheer, often satisfy this requirement. Second, the brand name should indicate the product's major benefits and, if possible, should suggest in a positive way the product's uses and special characteristics; negative or offensive references should be avoided. For example, the brand names of household cleaning products such as Ajax dishwashing liquid, Vanish toilet bowl cleaner, Formula 409 multipurpose cleaner, Cascade dishwasher detergent, and Wisk laundry detergent connote strength and effectiveness. There is evidence that consumers are more likely to recall and to evaluate favorably names that convey positive attributes or benefits.³⁸ Third, to set it apart from competing brands, the brand should be distinctive. AT&T, for example, renamed its Cingular Wireless service AT&T so all the company's products would have the same brand name.³⁹ If a marketer intends to use a brand for a product line, that brand must be compatible with all products in the line. Finally, a brand should be designed so that it can be used and recognized in all types of media. Finding the right brand name has become a challenging task because many obvious product names have already been used.

How are brand names devised? Brand names can be created from single or multiple words—for example, Dodge Nitro. Letters and numbers are used to create brands such as Volvo's S60 sedan or Motorola's RAZR V3 phone. Words, numbers, and letters are combined to yield brand names such as Apple's iPhone or BMW's 535i Sedan. To avoid terms that have negative connotations, marketers sometimes use fabricated words that have absolutely no meaning when created—for example, Kodak and Exxon.

Who actually creates brand names? Brand names can be created internally by the organization. At Del Monte, a team of executives brainstormed 27 ideas for new cat food offerings with names such as "pâté," "soufflé," and "crème brulée."⁴⁰ Sometimes a name is suggested by individuals who are close to the development of the product. Some organizations have committees that participate in brand-name creation and approval. Large companies that introduce numerous new products annually are likely to have a department that develops brand names. At times, outside consultants and companies that specialize in brand-name development are used.

PROTECTING A BRAND

A marketer also should design a brand so that it can be protected easily through registration. A series of court decisions has created a broad hierarchy of protection based on brand type. From most protectable to least protectable, these brand types are fanciful (Exxon), arbitrary (Dr Pepper), suggestive (Spray 'n Wash), descriptive (Minute Rice), and generic (aluminum foil). Generic brands are not protectable. Surnames and descriptive, geographic, or functional names are difficult to protect.⁴¹ However, research shows that overall, consumers prefer descriptive and suggestive brand names and find them easier to recall compared with fanciful and arbitrary brand names.⁴² Because of their designs, some brands can be legally infringed on more easily than others. Although registration protects trademarks domestically for ten



Protecting a Brand

Eddie Bauer protects its brand through registration.

© Richard Levine/Alamy

years, and trademarks can be renewed indefinitely, a firm should develop a system for ensuring that its trademarks are renewed as needed.

To protect its exclusive rights to a brand, a company must ensure that the brand is not likely to be considered an infringement on any brand already registered with the U.S. Patent and Trademark Office. Auto Shack changed its name to AutoZone when faced with legal action from Tandy Corporation, owner of Radio Shack. Tandy maintained that it owned the name *Shack*. After research showed that virtually every auto supply store in the country used *auto* in its name, *zone* was deemed the best word to pair with *auto*. This process may be complex because infringement is determined by the courts, which base their decisions on whether a brand causes consumers to be confused, mistaken, or deceived about the source of the product. McDonald's is one company that aggressively protects its trademarks against infringement; it has brought charges against a number of companies with *Mc* names because it fears that use of the prefix will give consumers the impression that these companies are associated with or owned by McDonald's.

A marketer should guard against allowing a brand name to become a generic term used to refer to a general product category. Generic terms cannot be protected as exclusive brand names. For example, *aspirin*, *escalator*, and *shredded wheat*—all brand names at one time—eventually were declared generic terms that refer to product classes. Thus, they could no longer be protected. To keep a brand name from becoming a generic term, the firm should spell the name with a capital letter and use it as an adjective to modify the name of the general product class, as in Kool-Aid Brand Soft Drink Mix.⁴³ Including the word *brand* just after the brand name is also helpful. An organization can deal with this problem directly by advertising that its brand is a trademark and should not be used generically. The firm also can indicate that the brand is a registered trademark by using the symbol ®.

A U.S. firm that tries to protect a brand in a foreign country frequently encounters problems. In many countries, brand registration is not possible; the first firm to use a brand in such a country automatically has the rights to it. In some instances, U.S. companies actually have had to buy their own brand rights from a firm in a foreign country because the foreign firm was the first user in that country.

Marketers trying to protect their brands also must contend with brand counterfeiting. In the United States, for instance, one can purchase counterfeit General Motors parts, Cartier watches, Louis Vuitton handbags, Walt Disney character dolls, Microsoft software, Warner

Emerging Trends in Marketing



The Corn Industry Changes Its Brand Name from Corn Syrup to Corn Sugar

Can one word influence how a product is perceived? The corn industry thinks so. The Corn Refiners Association has petitioned the Food and Drug Administration (FDA) to change “corn syrup” to “corn sugar” on labels. Although once embraced by food companies for its lack of distinct flavor and inexpensive price, today the sweetener is often linked to health complaints such as diabetes and coronary artery disease. A recent survey revealed that 58 percent of Americans are concerned about its impact

on health. The corn industry, however, claims there is little definitive evidence that corn syrup/sugar is any worse than other sweeteners. It also claims that the body cannot tell the difference between corn sugar and cane sugar. Although the FDA may take up to two years to respond, the Corn Refiners Association has launched a heavy marketing campaign, pushing the “sugar is sugar” message. Ads feature parents with children and other comforting images aimed to reassure the consumer.^c

Brothers clothing, Mont Blanc pens, and a host of other products illegally marketed by manufacturers that do not own the brands. Pirated consumer goods, according to the U.S. Department of Commerce, cost \$650 billion annually.⁴⁴

In the interest of strengthening trademark protection, Congress enacted the Trademark Law Revision Act in 1988, the only major federal trademark legislation since the Lanham Act of 1946. The purpose of this more recent legislation is to increase the value of the federal registration system for U.S. firms relative to foreign competitors and to protect the public from counterfeiting, confusion, and deception.⁴⁵

BRANDING POLICIES

Before establishing branding policies, a firm must decide whether to brand its products at all. If a company's product is homogeneous and is similar to competitors' products, it may be difficult to brand in a way that will generate brand loyalty. Raw materials such as coal, sand, and farm produce are hard to brand because of the homogeneity of such products and their physical characteristics.

If a firm chooses to brand its products, it may use individual branding, family branding, or a combination. **Individual branding** is a policy of naming each product differently. Sara Lee uses individual branding among its many divisions, which include Hanes underwear, L'eggs pantyhose, Champion sportswear, Bali, Jimmy Dean, Ball Park, and other vastly different brands. A major advantage of individual branding is that if an organization introduces an inferior product, the negative images associated with it do not contaminate the company's other products. An individual branding policy also may facilitate market segmentation when a firm wishes to enter many segments of the same market. Separate, unrelated names can be used, and each brand can be aimed at a specific segment.

When using **family branding**, all of a firm's products are branded with the same name or at least part of the name, such as Kellogg's Frosted Flakes, Kellogg's Rice Krispies, and Kellogg's Corn Flakes. In some cases, a company's name is combined with other words to brand items. Arm & Hammer uses its name on all its products, along with a general description of the item, such as Arm & Hammer Heavy Duty Detergent, Arm & Hammer Pure Baking Soda, and Arm & Hammer Carpet Deodorizer. Unlike individual branding, family branding means that the promotion of one item with the family brand promotes the firm's other products. Examples of other companies that use family branding include Mitsubishi, Heinz, and Sony.

individual branding

A policy of naming each product differently

family branding

Branding all of a firm's products with the same name

An organization is not limited to a single branding policy. A company that uses primarily individual branding for many of its products also may use family branding for a specific product line. Branding policy is influenced by the number of products and product lines the company produces, the characteristics of its target markets, the number and types of competing products available, and the size of the firm’s resources.

BRAND EXTENSIONS

A **brand extension** occurs when an organization uses one of its existing brands to brand a new product in a different product category. An example is when Bic, the maker of disposable pens, introduced Bic disposable razors and Bic lighters. A brand extension should not be confused with a line extension. A line extension refers to using an existing brand on a new product in the same product category, such as new flavors or sizes. For example, when the maker of Tylenol, McNeil Consumer Products, introduced Extra Strength Tylenol P.M., the new product was a line extension because it was in the same category. Marketers share a common concern that if a brand is extended too many times or extended too far outside its original product category, the brand can be weakened significantly. For example, Miller Brewing Company has extended its brand to Miller Lite, Genuine Draft, MGD 64, Chill, High Life, Icehouse, Milwaukee’s Best, and Red Dog, but so many extensions may confuse customers and encourage them to engage in considerable brand switching.⁴⁶ For instance, Kellogg’s extended its brand name to a line of hip-hop street clothing that was later named one of the worst brand extensions that year.⁴⁷ Research has found that a line extension into premium categories can be an effective strategy to revitalize a brand, but the line extension needs to be closely linked to the core brand.⁴⁸ Table 10.3 describes brand extensions that failed because they were too dissimilar to their core product.

CO-BRANDING

Co-branding is the use of two or more brands on one product. Marketers employ co-branding to capitalize on the brand equity of multiple brands. Co-branding is popular in several processed-food categories and in the credit card industry. The brands used for co-branding can be owned by the same company. For example, Kraft’s Lunchables product teams the Kraft cheese brand with Oscar Mayer lunchmeats, another Kraft-owned brand.

brand extension
Using an existing brand to brand a new product in a different product category

co-branding
Using two or more brands on one product

TABLE 10.3 Worst Brand Extensions		
Brand Name	Core Product	Failed Brand Extension
Smith & Wesson	Firearms	Mountain Bikes
Bic	Pens	Bic Underwear
Cosmopolitan	Magazine	Yogurt
Wrigley	Candy	Life Savers Soda
Coors	Beer	Rocky Mountain Spring Water
Colgate	Consumer products	Colgate Kitchen Entrees
Frito-Lay	Snack foods	Lemonade
Harley-Davidson	Motorcycles	Perfume

Source: "Top 25 Biggest Product Flops of All Time," *Wallet Pop*, www.walletpop.com/photos/top-25-biggest-product-flops-of-all-time/ (accessed April 14, 2011).

Co-Branding

Burger King makes Heinz ketchup available to customers through co-branding.



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The brands also may be owned by different companies. Credit card companies such as American Express, Visa, and MasterCard, for instance, team up with other brands such as General Motors, AT&T, and many airlines. Effective co-branding capitalizes on the trust and confidence customers have in the brands involved. The brands should not lose their identities, and it should be clear to customers which brand is the main brand. For example, it is fairly obvious that Kellogg owns the brand and is the developer of Kellogg's Healthy Choice Cereal. It is important for marketers to understand that when a co-branded product is unsuccessful, both brands are implicated in the product failure. To gain customer acceptance, the brands involved must represent a complementary fit in the minds of buyers. Trying to link a brand such as Harley-Davidson with a brand such as Healthy Choice will not achieve co-branding objectives because customers are not likely to perceive these brands as compatible.

BRAND LICENSING

A popular branding strategy involves **brand licensing**, an agreement in which a company permits another organization to use its brand on other products for a licensing fee. Royalties may be as low as 2 percent of wholesale revenues or higher than 10 percent. The licensee is responsible for all manufacturing, selling, and advertising functions and bears the costs if the licensed product fails. The top U.S. licensing company is Walt Disney Company. The NFL, the NCAA, NASCAR, and Major League Baseball are all leaders in the retail sales of licensed sports-related products. The advantages of licensing range from extra revenues and low-cost or free publicity to new images and trademark protection. The major disadvantages are a lack of manufacturing control, which could hurt the company's name, and bombarding consumers with too many unrelated products bearing the same name.

Packaging

Packaging involves the development of a container and a graphic design for a product. A package can be a vital part of a product, making it more versatile, safer, and easier to use. Like a brand name, a package can influence customers' attitudes toward a product and so affect their purchase decisions. For example, several producers of jellies, sauces, and ketchups have packaged their products in squeezable plastic containers, sometimes upside down, to make use and storage more convenient, whereas several paint manufacturers have introduced easy-to-open and pour paint cans. Package characteristics help to shape buyers' impressions of a product at the time of

brand licensing

An agreement whereby a company permits another organization to use its brand on other products for a licensing fee

purchase or during use. In this section, we examine the main functions of packaging and consider several major packaging decisions. We also analyze the role of the package in a marketing strategy.

PACKAGING FUNCTIONS

Effective packaging involves more than simply putting products in containers and covering them with wrappers. First, packaging materials serve the basic purpose of protecting the product and maintaining its functional form. Fluids such as milk and orange juice need packages that preserve and protect them. The packaging should prevent damage that could affect the product's usefulness and thus lead to higher costs. Because product tampering has become a problem, several packaging techniques have been developed to counter this danger. Some packages are also designed to deter shoplifting.

Another function of packaging is to offer convenience to consumers. For example, small, aseptic packages—individual-size boxes or plastic bags that contain liquids and do not require refrigeration—strongly appeal to children and young adults with active lifestyles. The size or shape of a package may relate to the product's storage, convenience of use, or replacement rate. Small, single-serve products may prevent waste, make storage easier, and promote greater consumption. A third function of packaging is to promote a product by communicating its features, uses, benefits, and image. Sometimes a reusable package is developed to make the product more desirable. For example, the Cool Whip package can be reused as a food-storage container.

MAJOR PACKAGING CONSIDERATIONS

As they develop packages, marketers must take many factors into account. Obviously, one major consideration is cost. Although a number of different packaging materials, processes, and designs are available, costs vary greatly. In recent years, buyers have shown a willingness to pay more for improved packaging, but there are limits.

Marketers should consider how much consistency is desirable among an organization's package designs. No consistency may be the best policy, especially if a firm's products are unrelated or aimed at vastly different target markets. To promote an overall company image, a firm may decide that all packages should be similar or include one major element of the design. This approach is called **family packaging**. Sometimes it is used only for lines of products, as with Campbell's soups, Weight Watchers' foods, and Planters Nuts.

A package's promotional role is an important consideration. Through verbal and nonverbal symbols, the package can inform potential buyers about the product's content, features, uses, advantages, and hazards. Fancy Feast cat food packaging and labeling alludes to a pet owner showing as much concern about what the cat eats as what he or she eats. A firm can create desirable images and associations by its choice of color, design, shape, and texture. Many cosmetics manufacturers, for example, design their packages to create impressions of richness, luxury, and exclusiveness. To develop a package that has a definite promotional value, a designer must consider size, shape, texture, color, and graphics. Beyond the obvious limitation that the package must be large enough to hold the product, a package can be designed to appear taller or shorter. Light-colored packaging may make a package appear larger, whereas darker colors may minimize the perceived size.

Colors on packages are often chosen to attract attention, and color can positively influence customers' emotions. People often associate specific colors with certain feelings and experiences. Blue is soothing; it is also associated with wealth, trust, and security. Gray is associated with strength, exclusivity, and success. Orange can stand for low cost. Red connotes excitement and stimulation. Purple is associated with dignity and stateliness. Yellow connotes cheerfulness and joy. Black is associated with being strong and masterful.⁴⁹ When opting for color on packaging, marketers must judge whether a particular color will evoke positive or negative feelings when linked to a specific product. Rarely, for example, do processors package meat or bread in green materials because customers may associate green with mold. Marketers also must determine

family packaging

Using similar packaging for all of a firm's products or packaging that has one common design element

Package Innovation

Many children's juices are made available in plastic drink pouches for convenience.



© Angela Hampton Picture Library/Alamy

whether a specific target market will respond favorably or unfavorably to a particular color. Packages designed to appeal to children often use primary colors and bold designs.

Packaging also must meet the needs of resellers. Wholesalers and retailers consider whether a package facilitates transportation, storage, and handling. Resellers may refuse to carry certain products if their packages are cumbersome. Concentrated versions of laundry detergents and fabric softeners aid retailers in offering more product diversity within the existing shelf space.

A final consideration is whether to develop packages that are environmentally responsible. Nearly one-half of all garbage consists of discarded plastic packaging, such as polystyrene containers, plastic soft-drink bottles, and carryout bags. Plastic packaging material does not biodegrade, and paper requires the destruction of valuable forests. Consequently, many companies have changed to environmentally sensitive packaging; they are also recycling more materials. Naked Juice became the first beverage with national distribution to produce its packaging completely from recycled plastic.⁵⁰ H.J. Heinz is looking for alternatives to its plastic ketchup squeeze bottles. Other companies are also searching for alternatives to environmentally harmful packaging. In some instances, customers have objected to such switches because the newer environmentally responsible packaging may be less effective or more inconvenient. For example, bottled water producers who use less plastic and produce thinner bottles also face criticism for the noise the bottles make while holding and drinking. On the other hand, some consumers are willing to pay more for eco-friendly packaging. Therefore, marketers must carefully balance society's desire to preserve the environment against customers' desire for price and convenience.

PACKAGING AND MARKETING STRATEGY

Packaging can be a major component of a marketing strategy. A new cap or closure, a better box or wrapper, or a more convenient container may give a product a competitive advantage. The right type of package for a new product can help it to gain market recognition very quickly. Sunsweet Growers, for example, had this in mind when it introduced New Ones dried prunes, targeted at consumers who wanted healthier snacks. Sold in transparent canisters containing

20 individually wrapped pitted prune snacks that look rather like candy, the package protects the product and makes it portable enough for the lunchbox or desk.⁵¹ In the case of existing brands, marketers should reevaluate packages periodically. Marketers should view packaging as a major strategic tool, especially for consumer convenience products. For instance, in the food industry, jumbo and large package sizes for products such as hot dogs, pizzas, English muffins, frozen dinners, and biscuits have been very successful. When considering the strategic uses of packaging, marketers also must analyze the cost of packaging and package changes. Many companies have successfully grown the market for their products with the “100 Calorie” snack pack. In this section we examine several ways in which packaging can be used strategically.

Altering the Package

At times, a marketer changes a package or labeling because the existing design is no longer in style, especially when compared with the packaging of competitive products. Arm & Hammer now markets a refillable plastic shaker for its baking soda. Quaker Oats hired a package design company to redesign its Rice-A-Roni package to give the product the appearance of having evolved with the times while retaining its traditional taste appeal. A package may be redesigned because new product features need to be highlighted or because new packaging materials have become available. Starbucks enlarged its mermaid and removed the word “Starbucks Coffee” from its logo to emphasize that it is expanding beyond coffee and into the consumer packaged-goods business.⁵² An organization may also decide to change a product’s packaging to make the product safer or more convenient to use. Oscar Mayer introduced sliced bacon in a redesigned “Stay-Fresh Reclosable Tray” to address consumer complaints that traditional bacon packaging is sometimes messy and cannot be sealed to ensure freshness through multiple servings. Developed in cooperation with packaging company Bemis Co., the new package represents the most significant change in bacon packaging since the 1920s.⁵³ Packaging changes can also be a mistake in some cases. After PepsiCo redesigned the packaging of its Tropicana orange juice, consumers began complaining about the redesign almost immediately. Some claimed that the new design made the product look like a generic or store brand. Sales dropped 20 percent within a two-month period, compelling PepsiCo to bring back the old design.⁵⁴

Secondary-Use Packaging

A secondary-use package is one that can be reused for purposes other than its initial function. For example, a margarine container can be reused to store leftovers, and a jelly container can serve as a drinking glass. Customers often view secondary-use packaging as adding value to products, in which case its use should stimulate unit sales.

Category-Consistent Packaging

With category-consistent packaging, the product is packaged in line with the packaging practices associated with a particular product category. Some product categories—for example, mayonnaise, mustard, ketchup, and peanut butter—have traditional package shapes. Other product categories are characterized by recognizable color combinations, such as red and white for soup and red, yellow, and blue for Ritz-like crackers. When an organization introduces a brand in one of these product categories, marketers often will use traditional package shapes and color combinations to ensure that customers will recognize the new product as being in that specific product category.

Innovative Packaging

Sometimes a marketer employs a unique cap, design, applicator, or other feature to make a product distinctive. Such packaging can be effective when the innovation makes the product safer or easier to use or provides better protection for the product. Healthy Choice, for example, created an innovative package for its new Healthy Choice Fresh Mixers. Consumers are able to store their meal without a refrigerator or freezer as well as cook their meal in the

container and strain water with the lid.⁵⁵ In some instances, marketers use innovative or unique packages that are inconsistent with traditional packaging practices to make the brand stand out from its competitors. Unusual packaging sometimes requires spending considerable resources not only on package design but also on making customers aware of the unique package and its benefits. Moreover, research suggests that uniquely shaped packages that attract attention are more likely to be perceived as containing a higher volume of product.⁵⁶

Multiple Packaging

Rather than packaging a single unit of a product, marketers sometimes use twin-packs, tri-packs, six-packs, or other forms of multiple packaging. For certain types of products, multiple packaging may increase demand because it increases the amount of the product available at the point of consumption (e.g., in one's house). It also may increase consumer acceptance of the product by encouraging the buyer to try the product several times. Multiple packaging can make products easier to handle, store, and increase consumption as in the case of the "cube," which is a box of 24 to 30 12-ounce soft drinks sold in the summer when consumption of Coca-Cola, Pepsi, Sprite, and other beverages are higher.

Handling-Improved Packaging

A product's packaging may be changed to make it easier to handle in the distribution channel—for example, by changing the outer carton or using special bundling, shrink-wrapping, or pallets. In some cases, the shape of the package is changed. Outer containers for products are sometimes changed so that they will proceed more easily through automated warehousing systems.

labeling

Providing identifying, promotional, or other information on package labels

Labeling

Labeling is very closely interrelated with packaging and is used for identification, promotional, informational, and legal purposes. Labels can be small or large relative to the size of the prod-

uct and carry varying amounts of information. The sticker on a Chiquita banana, for example, is quite small and displays only the brand name of the fruit and perhaps a stock-keeping unit number. A label can be part of the package itself or a separate feature attached to the package. The label on a can of Coke is actually part of the can, whereas the label on a two-liter bottle of Coke is separate and can be removed. Information presented on a label may include the brand name and mark, the registered trademark symbol, package size and content, product features, nutritional information, potential presence of allergens, type and style of the product, number of servings, care instructions, directions for use and safety precautions, the name and address of the manufacturer, expiration dates, seals of approval, and other facts.

Labels can facilitate the identification of a product by displaying the brand name in combination with a unique graphic design. For example, Heinz ketchup is easy to identify on a supermarket shelf because the brand name is easy to read, and the label has a distinctive, crown-like shape. By drawing attention to products and their benefits, labels can strengthen an organization's promotional efforts. Labels may contain promotional messages such as the offer of a discount or a larger package size at the same price or information about a new or improved product feature.

Marketing Debate



The Great Salmon Controversy

Issue: *Should genetically modified salmon be labeled as such?*

Consumers may soon see genetically modified meat on their dinner plates. The Food and Drug Administration (FDA) is considering whether to approve genetically modified Atlantic salmon that contain genes from other fish to make them grow quicker. So far they appear safe to eat, but critics believe that the salmon should be labeled to alert consumers. The FDA, however, only requires these types of labels for foods that are significantly different from the original product, which may not be the case here. Should genetically modified salmon be labeled? Or would such labeling unfairly imply that it is unsafe to consume?^d

**"Made in ..." Labels**

The country of origin affects customers' perceptions of the product.

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Several federal laws and regulations specify information that must be included on the labels of certain products. Garments must be labeled with the name of the manufacturer, country of manufacture, fabric content, and cleaning instructions. Labels on nonedible items such as shampoos and detergents must include both safety precautions and directions for use. The Nutrition Labeling Act of 1990 requires the FDA to review food labeling and packaging, focusing on nutrition content, label format, ingredient labeling, food descriptions, and health messages. Any food product for which a nutritional claim is made must have nutrition labeling that follows a standard format. Food product labels must state the number of servings per container, serving size, number of calories per serving, number of calories derived from fat, number of carbohydrates, and amounts of specific nutrients such as vitamins. In addition, new nutritional labeling requirements focus on the amounts of trans-fatty acids in food products. Beginning in 2012, meats will also be required to display labels that provide information on calories and fat.⁵⁷ Although consumers have responded favorably to this type of information on labels, evidence as to whether they actually use it has been mixed. One study reported that 80 percent of American consumers claim to read food labels, yet 44 percent admitted to buying a product even when the information on the label indicated that it was less than healthy.⁵⁸ Food manufacturers are particularly aware of emerging health concerns and are promising trans-fat-free, low-sodium, and wheat-gluten-free products.

The use of new technology in the production and processing of food has led to additional food labeling issues. The FDA now requires that a specific irradiation logo be used when labeling irradiated food products. In addition, the FDA has issued voluntary guidelines for food marketers to follow if they opt to label foods as being free of genetically modified organisms or to promote their biotech ingredients.

Of concern to many manufacturers are the Federal Trade Commission's (FTC) guidelines regarding "Made in U.S.A." labels, a growing problem owing to the increasingly global nature of manufacturing. The FTC requires that "all or virtually all" of a product's components be made in the United States if the label says "Made in U.S.A." Although the FTC recently considered changing its guidelines to read "substantially all," it rejected this idea and maintains the "all or virtually all" standard. In light of this decision, the FTC ordered New Balance to stop

TABLE 10.4 Perceived Quality and Value of Products Based on Country of Origin*

	"Made in U.S.A."		"Made in Japan"		"Made in Korea"		"Made in China"	
	Value	Quality	Value	Quality	Value	Quality	Value	Quality
U.S. adults	4.0	4.2	3.2	3.2	2.6	2.4	2.8	2.4
Western Europeans	3.3	3.4	3.5	3.5	2.8	2.4	2.9	2.4

*On a scale of 1 (low) to 5 (high).

Source: "American Demographics 2006 Consumer Perception Survey," *Advertising Age*, January 2, 2006, p. 9. Data by Synovate.

using the "Made in U.S.A." claim on its athletic shoe labels because some components (rubber soles) are made in China. The "Made in U.S.A." labeling issue has not been totally resolved. The FTC criteria for using "Made in U.S.A." are likely to be challenged and subsequently changed.⁵⁹ Table 10.4 provides insight into just how important the "Made in U.S.A." label can be for both Americans and western Europeans. It includes assessments of both quality and value for U.S.A.-, Japan-, Korea-, and Chinese-origin labels.

CHAPTER REVIEW

1 Understand the concept of a product and how products are classified.

A product is a good, a service, an idea, or any combination of the three received in an exchange. It can be either tangible or intangible and includes functional, social, and psychological utilities or benefits. When consumers purchase a product, they are buying the benefits and satisfaction they think the product will provide.

Products can be classified on the basis of the buyer's intentions. Consumer products are those purchased to satisfy personal and family needs. Business products are purchased for use in a firm's operations, to resell, or to make other products. Consumer products can be subdivided into convenience, shopping, specialty, and unsought products. Business products can be classified as installations, accessory equipment, raw materials, component parts, process materials, MRO supplies, and business services.

2 Explain the concepts of product item, product line, and product mix, and understand how they are connected.

A product item is a specific version of a product that can be designated as a distinct offering among an organization's products. A product line is a

group of closely related product items that are considered a unit because of marketing, technical, or end-use considerations. The composite, or total, group of products that an organization makes available to customers is called the product mix. The width of the product mix is measured by the number of product lines the company offers. The depth of the product mix is the average number of different products offered in each product line.

3 Understand the product life cycle and its impact on marketing strategies.

The product life cycle describes how product items in an industry move through four stages: introduction, growth, maturity, and decline. The sales curve is at zero at introduction, rises at an increasing rate during growth, peaks during the maturity stage, and then declines. Profits peak toward the end of the growth stage of the product life cycle.

4 Describe the product adoption process.

When customers accept a new product, they usually do so through a five-stage adoption process. The first stage is awareness, when buyers become aware that a product exists. Interest, the second stage, occurs when buyers seek information and are receptive to learning about the product. The third stage is evaluation; buyers consider the product's

benefits and decide whether to try it. The fourth stage is trial; during this stage, buyers examine, test, or try the product to determine if it meets their needs. The last stage is adoption, when buyers actually purchase the product and use it whenever a need for this general type of product arises.

5 Explain the value of branding and the major components of brand equity.

A brand is a name, term, design, symbol, or any other feature that identifies one seller's good or service and distinguishes it from those of other sellers. Branding helps buyers to identify and evaluate products, helps sellers to facilitate product introduction and repeat purchasing, and fosters brand loyalty. Brand equity is the marketing and financial value associated with a brand's strength. It represents the value of a brand to an organization. The four major elements underlying brand equity include brand name awareness, brand loyalty, perceived brand quality, and brand associations.

6 Recognize the types of brands and how they are selected and protected.

A manufacturer brand is initiated by a producer. A private distributor brand is initiated and owned by a reseller, sometimes taking on the name of the store or distributor. A generic brand indicates only the product category and does not include the company name or other identifying terms. When selecting a brand name, a marketer should choose one that is easy to say, spell, and recall and that alludes to the product's uses, benefits, or special characteristics. Brand names can be devised from words, letters, numbers, nonsense words, or a combination of these. Companies protect ownership of their brands through registration with the U.S. Patent and Trademark Office.

7 Identify two types of branding policies, and explain brand extensions, co-branding, and brand licensing.

Individual branding designates a unique name for each of a company's products. Family branding identifies all of a firm's products with a single name. A brand extension is the use of an existing name on a new or improved product

in a different product category. Co-branding is the use of two or more brands on one product. Through a licensing agreement and for a licensing fee, a firm may permit another organization to use its brand on other products. Brand licensing enables producers to earn extra revenue, receive low-cost or free publicity, and protect their trademarks.

8 Describe the major packaging functions and design considerations as well as how packaging is used in marketing strategies.

Packaging involves the development of a container and a graphic design for a product. Effective packaging offers protection, economy, safety, and convenience. It can influence a customer's purchase decision by promoting features, uses, benefits, and image. When developing a package, marketers must consider the value to the customer of efficient and effective packaging, offset by the price the customer is willing to pay. Other considerations include how to make the package tamper resistant, whether to use multiple packaging and family packaging, how to design the package as an effective promotional tool, and how best to accommodate resellers. Packaging can be an important part of an overall marketing strategy and can be used to target certain market segments. Modifications in packaging can revive a mature product and extend its product life cycle. Producers alter packages to convey new features or to make them safer or more convenient. If a package has a secondary use, the product's value to the consumer may increase. Category-consistent packaging makes products more easily recognized by consumers. Innovative packaging enhances a product's distinctiveness.

9 Understand the functions of labeling and selected legal issues.

Labeling is closely interrelated with packaging and is used for identification, promotional, and informational and legal purposes. Various federal laws and regulations require that certain products be labeled or marked with warnings, instructions, nutritional information, manufacturer's identification, and perhaps other information.

ONLINE RESOURCES

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KEY CONCEPTS

good	269	product mix	276	trade name	284
service	269	width of product mix	276	brand equity	285
idea	269	depth of product mix	276	brand loyalty	285
consumer products	271	product life cycle	277	brand recognition	286
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product item	275	brand mark	284		
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ISSUES FOR DISCUSSION AND REVIEW

1. Is a personal computer sold at a retail store a consumer product or a business product? Defend your answer.
2. How do convenience products and shopping products differ? What are the distinguishing characteristics of each type of product?
3. How does an organization's product mix relate to its development of a product line? When should an enterprise add depth to its product line rather than width to its product mix?
4. How do industry profits change as a product moves through the four stages of its life cycle?
5. What are the stages in the product adoption process, and how do they affect the commercialization phase?
6. How does branding benefit consumers and marketers?
7. What is brand equity? Identify and explain the major elements of brand equity.
8. What are the three major degrees of brand loyalty?
9. Compare and contrast manufacturer brands, private distributor brands, and generic brands.
10. Identify the factors a marketer should consider in selecting a brand name.
11. What is co-branding? What major issues should be considered when using co-branding?
12. Describe the functions a package can perform. Which function is most important? Why?
13. What are the main factors a marketer should consider when developing a package?
14. In what ways can packaging be used as a strategic tool?
15. What are the major functions of labeling?

MARKETING APPLICATIONS

1. Choose a familiar clothing store. Describe its product mix, including its depth and width. Evaluate the mix and make suggestions to the owner.
2. Tabasco pepper sauce is a product that has entered the maturity stage of the product life cycle. Name products that would fit into each of the four stages (introduction, growth, maturity, and decline). Describe each product and explain why it fits in that stage.
3. Generally, buyers go through a product adoption process before becoming loyal customers. Describe your experience in adopting a product you now use consistently. Did you go through all the stages?
4. Identify two brands for which you are brand insistent. How did you begin using these brands? Why do you no longer use other brands?
5. General Motors introduced the subcompact Geo with a name that appeals to a world market. Invent a brand name for a line of luxury sports cars that also would appeal to an international market. Suggest a name that implies quality, luxury, and value.
6. For each of the following product categories, choose an existing brand. Then, for each selected brand, suggest a co-brand and explain why the co-brand would be effective.
 - a. Cookies
 - b. Pizza
 - c. Long-distance telephone service
 - d. A sports drink
7. Identify a package that you believe to be inferior. Explain why you think the package is inferior, and discuss your recommendations for improving it.

ONLINE EXERCISE

8. In addition to providing information about the company's products, Goodyear's website helps consumers find the exact products they want and even directs them to the nearest Goodyear retailer. Visit the Goodyear site at <http://www.goodyear.com>.
 - a. How does Goodyear use its website to communicate information about the quality of its tires?
 - b. How does Goodyear's website demonstrate product and design features?
 - c. Based on what you learned at the website, describe what Goodyear has done to position its tires.

DEVELOPING YOUR MARKETING PLAN

Identifying the needs of consumer groups and developing products that satisfy those needs is essential when creating a marketing strategy. Successful product development begins with a clear understanding of fundamental product concepts. The product concept is the basis on which many of the marketing plan decisions are made. When relating the information in this chapter to the development of your marketing plan, consider the following:

1. Using Figure 10.2 as a guide, create a matrix of the current product mix for your company.
2. Discuss how the profitability of your product will change as it moves through each of the phases of the product life cycle.
3. Create a brief profile of the type of consumer who is likely to represent each of the product adopter categories for your product.
4. Discuss the factors that could contribute to the failure of your product. How will you define product failure?

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

NEW BELGIUM BREWS UP STRONG BRAND EQUITY

The idea for New Belgium Brewing Company began with a bicycling trip through Belgium, where some of the world's finest ales have been brewed for centuries. As Jeff Lebesch, a U.S. electrical engineer, cruised around on a fat-tired mountain bike, he wondered if he could produce such high-quality ales in his home state of Colorado. After returning home, Lebesch began to experiment in his Fort Collins basement. When his home-brewed experiments earned rave reviews from friends, Lebesch and his wife, Kim Jordan, opened New Belgium Brewing (NBB) in 1991. They named their first brew Fat Tire Amber Ale in honor of Lebesch's biking adventure.

Although the overall craft-brewing industry has done well in recent years, with sales growing steadily even during the recent economic downturn, NBB has done even better. Today, NBB is a successful \$100 million company with products in 26 states. The entrepreneurial company has steadily expanded its distribution throughout the western United States, partnering with regional breweries to produce and sell its fresh-brewed beers in local communities farther and farther from its Colorado headquarters.

The standard product line includes Sunshine Wheat, Blue Paddle Pilsner, Abbey Ale, Mothership Wit, Trippel, Ranger IPA, 1554 Black Ale, and the firm's best-seller, the original Fat Tire Amber Ale. NBB also markets seasonal beers, such as Frambozen, released at Thanksgiving and Christmas, and Hoptober, sold during the early fall. The firm occasionally offers one-time-only brews—such as LaFolie, a wood-aged beer—that are sold only until the batch runs out.

To reinforce the firm's commitment to old-fashioned brewing quality, NBB's packaging and labels evoke a touch of nostalgia. The Fat Tire label, for example, features an old-style cruiser bike with wide tires, a padded seat, and a basket hanging from the handlebars. The label and packaging designs were created by the same watercolor artist, Jeff Lebesch's next-door neighbor.

NBB prices its beers to reflect high quality and set the products apart from those of more widely available brands such as Coors and Budweiser. This pricing strategy conveys the message that the products are special but also keeps them competitive with other microbrews, such as Pete's Wicked Ale and Sierra Nevada. To demonstrate its appreciation for its retailers and business partners, NBB does not sell beer to consumers on-site at the brewhouse for less than the retailers charge.

Since its founding, NBB's most effective promotion has been via word-of-mouth communication by customers devoted to the brand. The company initially avoided mass advertising, relying instead on small-scale, local promotions, such as print advertisements in alternative magazines, participation in local festivals,

and sponsorship of alternative sports events. Through event sponsorships, such as the Tour de Fat, NBB has raised thousands of dollars for various environmental, social, and cycling nonprofit organizations. The company is also a member of 1 Percent for the Planet, donating 1 percent of its annual sales revenue to environmental-protection groups around the world.

With expanding distribution, however, the brewery recognized a need to connect more effectively with a far-flung customer base. NBB's top management consulted with Dr. David Holt, an Oxford professor and branding expert. After studying the fast-growing company, Holt, together with NBB's marketing director, drafted a 70-page "manifesto" describing the brand's attributes, character, cultural relevancy, and promise. In particular, Holt identified an ethos of pursuing creative activities simply for the joy of doing them well and in harmony with the natural environment.

With the brand thus defined, New Belgium went in search of ways to market its new brand identity. It has invested in a variety of media, both traditional and nontraditional. One of New Belgium's more whimsical advertising campaigns was its promotion of its new brand, Ranger IPA ale. During the campaign, the NBB sales force was sent out in tan-and-olive "ranger" uniforms riding bicycles instead of horses. Additionally, NBB took out traditional advertisements in *Wired* and *Rolling Stone*. However, it also went the non-traditional route by launching a microsite for promotional purposes. The microsite featured a video of a hip-hop number performed by the NBB rangers to promote the new beer. The site included a "Ranger Yourself?" function that allowed visitors to place their headshots on a Ranger's body and upload them to their walls. The ad helped position the growing brand as hip and whimsical. In addition to advertising, the company promotes its brand by sponsoring bicycle tours and engaging customers and employees in online conversations via social media such as Twitter, Facebook, and blogs.

NBB's mission is: "To operate a profitable brewery which makes our love and talent manifest." From top-quality brewing to a strong belief in giving back to the local and global community, the company reinforces the positive qualities that make its brand so successful every day.⁶⁰

QUESTIONS FOR DISCUSSION

1. What has New Belgium Brewing done to increase brand recognition and brand preference?
2. How is New Belgium Brewing using packaging to support its brand image?
3. Assess New Belgium's brand equity in terms of awareness, quality, associations, and loyalty.

CHAPTER 11

Developing and Managing Goods and Services

AP Images/Gene J. Puskar

MARKETING INSIGHTS

Home Depot Embraces Technology to Improve Service

Home Depot's customer service rankings have varied over the years. Although opinions on the home improvement retailer differ, they seem to agree that until recently Home Depot has not had the best technology to manage its product inventory. While the company focused on opening new stores at an accelerated rate, employees were using antiquated computers to manage consumer purchasing activities. The company did not allow customers to order goods online and pick them up at stores as Lowe's computer network allowed. In 2010, Home Depot's online sales amounted to only 1.5 percent of overall sales. Even though Home Depot remained popular with contractors, it had lost the tech-savvy crowd to rival Lowe's. Tired of lagging behind, Home Depot is ready to improve its technological reputation for customer service.

In a rush to innovate, Home Depot has released an iPhone app (ahead of Lowe's) and invested \$64 million in First Phone. This device displaces the ancient computers on carts, allowing employees to manage inventory, contact different locations, communicate with in-store personnel, and print labels. Essentially, it improves customer service by speeding up response time. Homedepot.com has also received a makeover, creating better navigation and new customer service offerings such as live chat. These days, almost 50 percent of do-it-yourselfers research and plan online. Home Depot is attempting to reach them by improving services and launching an online do-it-yourself community.

As the company progresses technologically, it must also remember its more old-fashioned customers who prefer quality in-store service. It is all about striking the right balance and making sure its target markets are served.¹

OBJECTIVES:

- 1 Understand how companies manage existing products through line extensions and product modifications.
- 2 Describe how businesses develop a product idea into a commercial product.
- 3 Know the importance of product differentiation and the elements that differentiate one product from another.
- 4 Explain product positioning and repositioning.
- 5 Understand how product deletion is used to improve product mixes.
- 6 Understand the characteristics of services and how these characteristics present challenges when developing marketing mixes for service products.
- 7 Be familiar with organizational structures used for managing products.

To provide products that satisfy target markets and achieve the firm's objectives, a marketer must develop, alter, and maintain an effective product mix. An organization's product mix may require adjustment for a variety of reasons. Because customers' attitudes and product preferences change over time, their desire for certain products may wane. Coca-Cola, for example, has seen sales of its traditional carbonated beverages decline as consumers seek alternatives to corn syrup and artificial sweeteners, because consumers have increasingly negative opinions of both. Thus, the company partnered with Cargill to create TRUVIA, a sweetener derived from the Stevia plant. The resulting product is low in calories and has initially been marketed to active teens and young adults.² Coke also introduced NESTEA Red Tea Pomegranate Passion Fruit (red tea is a touted source of antioxidants) and Odwalla Reduced Calorie Quenchers (sweetened with TRUVIA and organic evaporated cane juice). In some cases, a company needs to alter its product mix for competitive reasons. A marketer may have to delete a product from the mix because a competitor dominates the market for that product. Similarly, a firm may have to introduce a new product or modify an existing one to compete more effectively. A marketer may expand the firm's product mix to take advantage of excess marketing and production capacity.

In this chapter we examine several ways to improve an organization's product mix. First, we discuss managing existing products through effective line extension and product modification. Next, we examine the stages of new-product development. Then we go on to discuss the ways companies differentiate their products in the marketplace and follow with a discussion of product positioning and repositioning. Next, we examine the importance of deleting weak products and the methods companies use to eliminate them. Then we explore the characteristics of services as products and how these services' characteristics affect the development of marketing mixes for services. Finally, we look at the organizational structures used to manage products.

Managing Existing Products

line extension

Development of a product that is closely related to existing products in the line but meets different customer needs

An organization can benefit by capitalizing on its existing products. By assessing the composition of the current product mix, a marketer can identify weaknesses and gaps. This analysis then can lead to improvement of the product mix through line extensions and product modifications.



Line Extensions

Opti-Free Express and Replenish are line extensions of the traditional Opti-Free contact solution product.

LINE EXTENSIONS

A **line extension** is the development of a product closely related to one or more products in the existing product line but designed specifically to meet somewhat different customer needs. For example, the 2011 Porsche Cayenne S Hybrid V-1 can drive short distances using electric power but at high speeds can switch to gas and match the power of a V-8 engine. This product extension of the Cayenne model provides an added benefit of fuel economy without compromising the performance that is a hallmark of the brand.

Many of the so-called new products introduced each year are, in fact, line extensions. Line extensions are more common than new products because they are a less expensive, lower-risk alternative for increasing sales.

A line extension may focus on a different market segment or may be an attempt to increase sales within the same market segment by more precisely satisfying the needs of people in that segment. SunnyRidge Farm, for example, extended its successful line of produce by launching a line of organic blueberry products.³ Line extensions are also used to take market share from competitors. For instance, the Ford Fusion Hybrid is a product line extension that was designed to compete directly with the Toyota Prius.

However, one side effect of employing a line extension is that it may result in a more negative evaluation of the core product. To avoid negative evaluations of its core product, Diamond Food Inc., known for its culinary nuts, chose to launch a new product line of Emerald Snack Nuts. It also acquired Pop Secret microwavable popcorn and Kettle potato chips. The snack line was advertised as a premium brand for healthy on-the-go convenience.⁴

PRODUCT MODIFICATIONS

Product modification means changing one or more characteristics of a product. A product modification differs from a line extension because the original product does not remain in the line. For example, automakers use product modifications annually when they create new models of the same brand. Once the new models are introduced, the manufacturers stop producing last year's model. Like line extensions, product modifications entail less risk than developing new products.

Product modification can indeed improve a firm's product mix, but only under certain conditions. First, the product must be modifiable. Second, customers must be able to perceive that a modification has been made. Third, the modification should make the product more consistent with customers' desires so that it provides greater satisfaction. One drawback to modifying a successful product is that the consumer who had experience with the original version of the product may view a modified version as a riskier purchase.⁵ There are three major ways to modify products: quality, functional, and aesthetic modifications.

Quality Modifications

Quality modifications are changes relating to a product's dependability and durability. The changes usually are executed by altering the materials or the production process. For instance, for a service, such as a sporting event or air travel, quality modifications may involve enhancing the emotional experience that makes the consumer passionate and loyal to the brand.

Reducing a product's quality may allow an organization to lower its price and direct the item at a different target market. In contrast, increasing the quality of a product may give a firm an advantage over competing brands. Higher quality may enable a company to charge a higher price by creating customer loyalty and lowering customer sensitivity to price. However, higher quality may require the use of more expensive components and processes, thus forcing the organization to cut costs in other areas. Some firms, such as Caterpillar, are finding ways to increase quality while reducing costs.

product modification

Change in one or more characteristics of a product

quality modifications

Changes relating to a product's dependability and durability

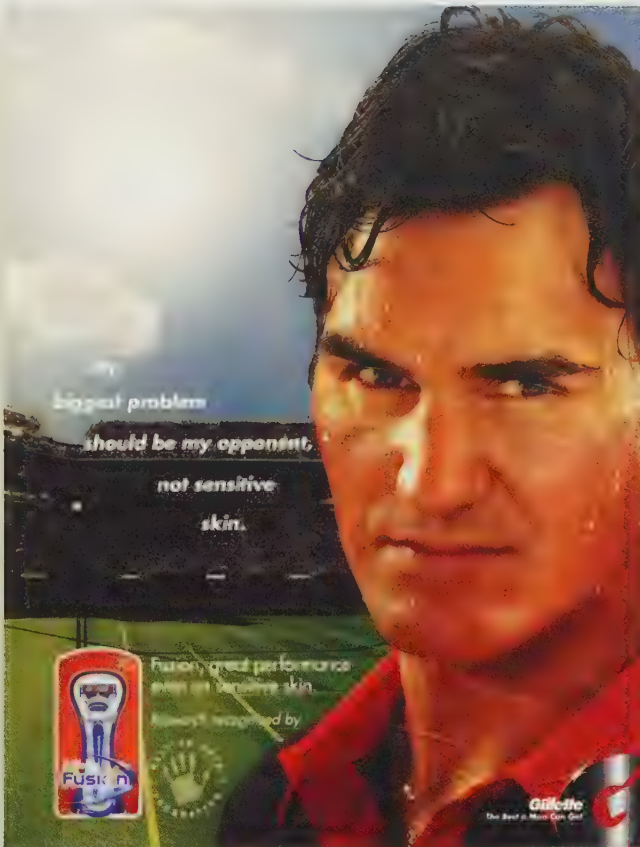


Marketing Debate

Gillette's Target Market Criticizes Upgrades

ISSUE: *Is Gillette embracing innovation at the expense of customer satisfaction?*

Since the 1970s, Gillette has modified its razor products by increasing the number of blades to create a smoother shave. Its newest innovation touts improved blade suspension systems and better handles. However, rather than embracing these product modifications, many men are drawing the line. These men go to great lengths to avoid purchasing new razors, preferring single blades and lower prices. Tired of having to purchase upgrades, more men are stockpiling blades designed for older razors. Others are arguing that Gillette ought to return to a single blade. They feel like these improved razors are more hype than anything else. Should Gillette continue to modify its razors, or go back to selling a simpler product?⁶



Courtesy of the Advertising Archives

Functional Modifications

Changes that affect a product's versatility, effectiveness, convenience, or safety are called **functional modifications**; they usually require that the product be redesigned. Product categories that have undergone considerable functional modification include office and farm equipment, appliances, cleaning products, and telecommunications services. For example, Sub-Zero modified its refrigerators with dual compressors. This feature allows for independent climate control of different compartments in the unit. The functional benefit is fresher food.

Functional modifications can make a product useful to more people and thus enlarge its market. Research in Motion, for example, created the slide-down key pad in an effort to blur the line between touchscreen and key pad.⁶ Companies can place a product in a favorable competitive position by providing benefits that competing brands do not offer. They can also help an organization achieve and maintain a progressive image. Finally, functional modifications are sometimes made to reduce the possibility of product liability lawsuits.

Aesthetic Modifications

Aesthetic modifications change the sensory appeal of a product by altering its taste, texture, sound, smell, or appearance. A buyer making a purchase decision is swayed by how a product looks, smells, tastes, feels, or sounds. Thus, an aesthetic modification may strongly affect purchases. The fashion industry relies heavily on aesthetic

modifications from season to season. For example, Prada clothing, handbags, and perfumes are leaders in the haute couture industry. In order to maintain its reputation for the utmost level of quality and style, the company performs aesthetic modifications on its products regularly. This ensures that Prada maintains its reputation for cutting-edge design and quality. In addition, aesthetic modifications attempt to minimize the amount of illegal product counterfeiting that occurs through constant change in design and quality.

Aesthetic modifications can help a firm differentiate its product from competing brands and thus gain a sizable market share. The major drawback in using aesthetic modifications is that their value is determined subjectively. Although a firm may strive to improve the product's sensory appeal, customers actually may find the modified product less attractive.

Product Modifications

Razors like the Gillette Fusion are often modified to respond to customer issues, such as sensitive skin.

functional modifications

Changes affecting a product's versatility, effectiveness, convenience, or safety

aesthetic modifications

Changes to the sensory appeal of a product

Developing New Products

A firm develops new products as a means of enhancing its product mix and adding depth to a product line. However, developing and introducing new products is frequently expensive and risky. For instance, Microsoft's Vista operating system launched to lackluster reviews and abundant problems, causing many PC users to refuse to upgrade from Microsoft's XP. Microsoft responded to the negative reviews by creating Windows 7, which was formulated as a replacement to Vista. As we discussed in the previous chapter, new-product failures occur frequently and can create major financial problems for organizations, sometimes even causing them to go out of business. Failure to introduce new products is also risky. General Motors lost market share and

entered bankruptcy due, in part, to failing to innovate and stay in touch with what competitors were producing and what consumers wanted.⁷ By eliminating several product lines and creating new products, General Motors worked to make its products more aligned with consumer desires.

The term *new product* can have more than one meaning. A genuinely new product offers innovative benefits. For example, Spanx (a line of popular slimming undergarments for women known for its popularity on the red carpet) recently launched a line of slimming undershirts for men. Although they look like T-shirts, they are said to slim the torso and make wearers look more physically fit.⁸ But products that are different and distinctly better are often viewed as new. For instance, Procter & Gamble credits a new design and product lineup with saving its Herbal Essence brand from extinction. These design overhauls revitalized the product and enabled Herbal Essence to more effectively compete against its rivals L'Oreal and Unilever.⁹ Some product innovations of the past 30 years include Post-it Notes, fax machines, cell phones, personal computers, personal digital assistants (PDAs), digital music players, satellite radio, and digital video recorders. A new product can be an innovative product that has never been sold by any organization, such as the digital camera when it was introduced for the first time. A radically new product involves a complex developmental process, including an extensive business analysis to determine the potential for success.¹⁰ Sometimes, the business analysis does not accurately depict consumer demand for the product. Satellite radio has struggled to find a strong market, and both XM and Sirius failed to have adequate market share for the two direct competitors. Therefore, Sirius acquired XM in order to find a profitable market share.

A new product can also be a product that a given firm has not marketed previously, although similar products have been available from other companies. When Denver-based Russian coffee company DAZBOG introduced tea, it was a new product line with 25 varieties of full leaf teas and herbal infusions.¹¹ Finally, a product can be viewed as new when it is brought to one or more markets from another market. For example, when Daimler brought its Smart Car to the United States, it was viewed as a new product, although the Smart had been out in Europe for years.¹² Before a product is introduced, it goes through the seven phases of the **new-product development process** shown in Figure 11.1: (1) idea generation, (2) screening, (3) concept testing, (4) business analysis, (5) product development, (6) test marketing, and (7) commercialization. A product may be dropped—and many are—at any stage of development. In this section, we look at the process through which products are developed from idea inception to fully commercialized product.

IDEA GENERATION

Businesses and other organizations seek product ideas that will help them to achieve their objectives. This activity is **idea generation**. The fact that only a few ideas are good enough to be successful commercially underscores the challenge of the task. Although some organizations get their ideas almost by chance, firms that try to manage their product mixes effectively usually develop systematic approaches for generating new-product ideas. At the heart of innovation is a purposeful, focused effort to identify new ways to serve a market.

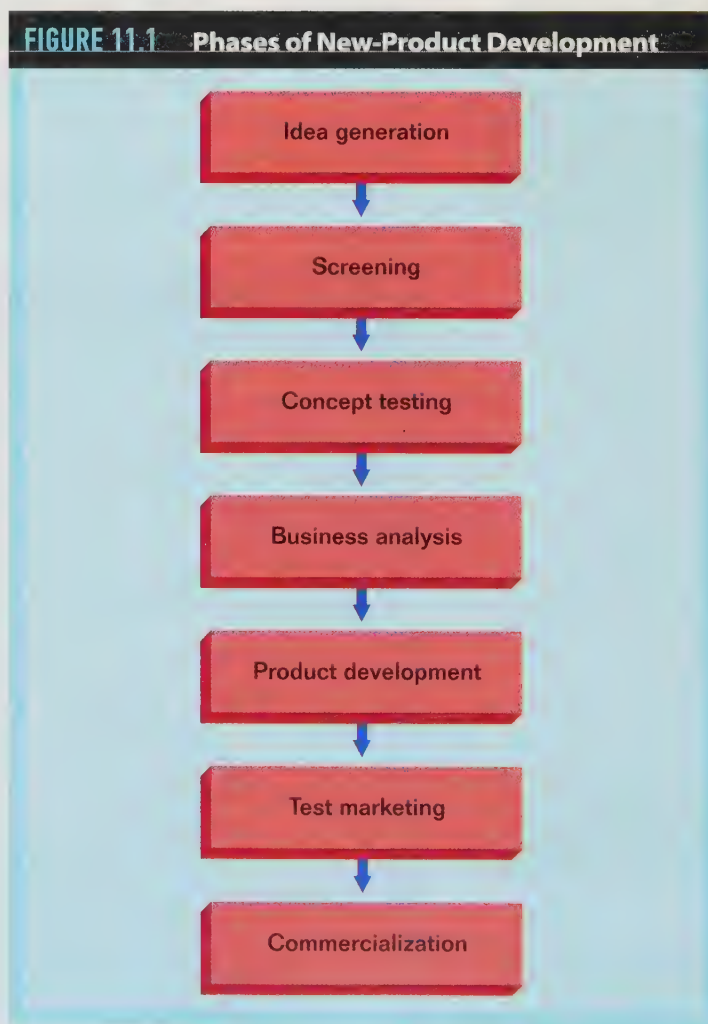
new-product development process

A seven-phase process for introducing products

idea generation

Seeking product ideas to achieve objectives

FIGURE 11.1 Phases of New-Product Development



New-product ideas can come from several sources. They may come from internal sources—marketing managers, researchers, sales personnel, engineers, or other organizational personnel. Brainstorming and incentives or rewards for good ideas are typical intrafirm devices for stimulating development of ideas. For example, the idea for 3M Post-it Notes came from an employee. As a church choir member, he used slips of paper to mark songs in his hymnal. Because the pieces of paper fell out, he suggested developing an adhesive-backed note.

In the restaurant industry, ideas may come from franchisees. At McDonald's, for example, franchise owners invented the Big Mac and the Egg McMuffin. Today, new McDonald's product ideas often come from corporate chef Dan Coudreaut, who developed the fast-food giant's snack wrap.¹³

New-product ideas also may arise from sources outside the firm, such as customers, competitors, advertising agencies, management consultants, and research organizations. Procter & Gamble gets 35 percent of its ideas from inventors and outside consultants.¹⁴ Consultants are often used as sources for stimulating new-product ideas. For example, Fahrenheit 212 serves as an “idea factory” that provides ready-to-go product ideas, including market potential analysis for major *Fortune* 500 firms including Campbell's, Best Buy, Citibank, Coca-Cola, Samsung, Adidas, and P&G, to name a few.¹⁵ When outsourcing new-product development activities to outside organizations, the best results are achieved from spelling out the specific tasks with detailed contractual specifications. Asking customers what they want from products and organizations has helped many firms become successful and remain competitive. Today, marketers are using online social networking sites such as quirky.com and crowdspring.com to communicate with customers and to gather new product ideas.

SCREENING

In the process of **screening**, the ideas with the greatest potential are selected for further review. During screening, product ideas are analyzed to determine whether or not they match the organization's objectives and resources. If a product idea results in a product similar to the firm's existing products, marketers must assess the degree to which the new product could cannibalize the sales of current products. The company's overall abilities to produce and market the product are also analyzed. Other aspects of an idea to be weighed are the nature and wants of buyers and possible environmental changes. At times, a checklist of new-product requirements is used when making screening decisions. This practice encourages evaluators to be systematic and thus reduces the chances of overlooking some pertinent fact. For instance, service organizations such as CNN have to screen ideas for new shows and hosts, which are their products. As CNN ratings began to drop, the network brought in new hosts such as Piers Morgan to replace Larry King.¹⁶ Compared with other phases, the greatest numbers of new-product ideas are rejected during the screening phase.

CONCEPT TESTING

To evaluate ideas properly, it may be necessary to test product concepts. In **concept testing**, a small sample of potential buyers is presented with a product idea through a written or oral description (and perhaps a few drawings) to determine their attitudes and initial buying intentions regarding the product. For a single product idea, an organization can test one or several concepts of the same product. Concept testing is a low-cost procedure that allows a company to determine customers' initial reactions to a product idea before it invests considerable resources in research and development. Input from online communities also may be beneficial in the product development process.¹⁷ The results of concept testing can help product development personnel better understand which product attributes and benefits are most important to potential customers.

Figure 11.2 shows a concept test for a proposed tick and flea control product. Notice that the concept is briefly described and then a series of questions is presented. The questions vary

screening

Choosing the most promising ideas for further review

concept testing

Seeking potential buyers' responses to a product idea

considerably depending on the type of product being tested. Typical questions include the following: In general, do you find this proposed product attractive? Which benefits are especially attractive to you? Which features are of little or no interest to you? Do you feel that this proposed product would work better for you than the product you currently use? Compared with your current product, what are the primary advantages of the proposed product? If this product were available at an appropriate price, would you buy it? How often would you buy this product? How could this proposed product be improved?

BUSINESS ANALYSIS

During the **business analysis** stage, the product idea is evaluated to determine its potential contribution to the firm's sales, costs, and profits. In the course of a business analysis, evaluators ask various questions: Does the product fit with the organization's existing product mix? Is demand strong enough to justify entering the market, and will the demand endure? What types of environmental and competitive changes can be expected, and how will these changes affect the product's future sales, costs, and profits? Are the organization's research, development, engineering, and production capabilities adequate to develop the product? If new facilities must be constructed, how quickly can they be built, and how much will they cost? Is the necessary financing for development and commercialization on hand or obtainable at terms consistent with a favorable return on investment?

In the business analysis stage, firms seek market information. The results of consumer polls, along with secondary data, supply the specifics needed to estimate potential sales, costs, and profits. For many products in this stage (when they are still just product ideas), forecasting sales accurately is difficult. This is especially true for innovative and completely new products. Organizations sometimes employ breakeven analysis to determine how many units they would have to sell to begin making a profit. At times, an organization also uses payback analysis, in which marketers compute the time period required to recover the funds that would be invested in developing the new product. Because breakeven and payback analyses are based on estimates, they are usually viewed as useful but not particularly precise tools.

business analysis

Evaluating the potential contribution of a product idea to the firm's sales, costs, and profits

FIGURE 11.2 Concept Test for a Flea and Tick Control Product

Product description

An insecticide company is considering the development and introduction of a new tick and flea control product for pets. This product would consist of insecticide and a liquid-dispensing brush for applying the insecticide to dogs and cats. The insecticide is in a cartridge that is installed in the handle of the brush. The insecticide is dispensed through the tips of the bristles when they touch the pet's skin (which is where most ticks and fleas are found). The actual dispensing works very much like a felt-tip pen. Only a small amount of insecticide actually is dispensed on the pet because of this unique dispensing feature. Thus, the amount of insecticide that is placed on your pet is minimal compared to conventional methods of applying a tick and flea control product. One application of insecticide will keep your pet free from ticks and fleas for 14 days.

Please answer the following questions:

1. In general, how do you feel about using this type of product on your pet?
2. What are the major advantages of this product compared with the existing product that you are currently using to control ticks and fleas on your pet?
3. What characteristics of this product do you especially like?
4. What suggestions do you have for improving this product?
5. If it is available at an appropriate price, how likely are you to buy this product?
Very likely Semi-likely Not likely
6. Assuming that a single purchase would provide 30 applications for an average-size dog or 48 applications for an average-size cat, approximately how much would you pay for this product?

Example of a New Product

Mitsuoka Motors offers a prototype of a new electric vehicle.



Toru Yamazaki/AFP/Getty Images

PRODUCT DEVELOPMENT

Product development is the phase in which the organization determines if it is technically feasible to produce the product and if it can be produced at costs low enough to make the final price reasonable. To test its acceptability, the idea or concept is converted into a prototype, or working model. The prototype should reveal tangible and intangible attributes associated with the product in consumers' minds. The product's design, mechanical features, and intangible aspects must be linked to wants in the marketplace. Through marketing research and concept testing, product attributes that are important to buyers are identified. These characteristics must be communicated to customers through the design of the product. GreenTech Automotive, for example, has developed a series of hybrid prototypes meant to appeal to consumers looking for efficient hybrid vehicles.

After a prototype is developed, its overall functioning must be tested. Its performance, safety, convenience, and other functional qualities are tested both in a laboratory and in the field. Functional testing should be rigorous and lengthy enough to test the product thoroughly. Manufacturing issues that come to light at this stage may require adjustments. When Nintendo and Opera Software partnered on the Wii, Nintendo engineers had to come up with many prototypes before the two companies could agree on a final version.

A crucial question that arises during product development is how much quality to build into the product. For example, a major dimension of quality is durability. Higher quality often calls for better materials and more expensive processing, which increase production costs and, ultimately, the product's price. In determining the specific level of quality, a marketer must ascertain approximately what price the target market views as acceptable. In addition, a marketer usually tries to set a quality level consistent with that of the firm's other products. Obviously, the quality of competing brands is also a consideration.

The development phase of a new product is frequently lengthy and expensive; thus a relatively small number of product ideas are put into development. If the product appears sufficiently successful during this stage to merit test marketing, then, during the latter part

product development

Determining if producing a product is technically feasible and cost effective

of the development stage, marketers begin to make decisions regarding branding, packaging, labeling, pricing, and promotion for use in the test marketing stage.

TEST MARKETING

A limited introduction of a product in geographic areas chosen to represent the intended market is called **test marketing**. Taco Bell, for example, conducted a market test of a breakfast menu in 13 of its Texas locations.¹⁸ The aim of test marketing is to determine the extent to which potential customers will buy the product. Test marketing is not an extension of the development stage; it is a sample launching of the entire marketing mix. Test marketing should be conducted only after the product has gone through development and initial plans regarding the other marketing mix variables. Companies use test marketing to lessen the risk of product failure. The dangers of introducing an untested product include undercutting already profitable products and, should the new product fail, loss of credibility with distributors and customers.

Test marketing provides several benefits. It lets marketers expose a product in a natural marketing environment to measure its sales performance. The company can strive to identify weaknesses in the product or in other parts of the marketing mix. A product weakness discovered after a nationwide introduction can be expensive to correct. Moreover, if consumers' early reactions are negative, marketers may be unable to persuade consumers to try the product again. Thus, making adjustments after test marketing can be crucial to the success of a new product. On the other hand, test marketing results may be positive enough to warrant accelerating the product's introduction. Test marketing also allows marketers to experiment with variations in advertising, pricing, and packaging in different test areas and to measure the extent of brand awareness, brand switching, and repeat purchases resulting from these alterations in the marketing mix.

Selection of appropriate test areas is very important because the validity of test market results depends heavily on selecting test sites that provide accurate representations of the intended target market. The top 10 most often used U.S. test market cities appear in Table 11.1. The criteria used for choosing test cities depend on the product's attributes, the target market's characteristics, and the firm's objectives and resources.

test marketing

Introducing a product on a limited basis to measure the extent to which potential customers will actually buy it

TABLE 11.1 Top 10 U.S. Test Market Cities

Rank	City
1	Albany, New York
2	Rochester, New York
3	Greensboro, North Carolina
4	Birmingham, Alabama
5	Syracuse, New York
6	Charlotte, North Carolina
7	Nashville, Tennessee
8	Eugene, Oregon
9	Wichita, Kansas
10	Richmond, Virginia

Source: "Which American City Provides the Best Consumer Test Market?" *Business Wire*, May 24, 2004.

Test marketing is not without risks. It is expensive, and competitors may try to interfere. A competitor may attempt to “jam” the test program by increasing its own advertising or promotions, lowering prices, and offering special incentives, all to combat the recognition and purchase of the new brand. Any such tactics can invalidate test results. Sometimes, too, competitors copy the product in the testing stage and rush to introduce a similar product. This is the time to conduct research to identify issues that might drive potential customers to market-leading competitors instead.¹⁹ It is desirable to move to the commercialization phase as soon as possible after successful testing. On the other hand, some firms have been known to promote new products heavily long before they are ready for the market to discourage competitors from developing similar new products.

Because of these risks, many companies use alternative methods to measure customer preferences. One such method is simulated test marketing. Typically, consumers at shopping centers are asked to view an advertisement for a new product and are given a free sample to take home. These consumers are interviewed subsequently over the phone and asked to rate the product. The major advantages of simulated test marketing are greater speed, lower costs, and tighter security, which reduce the flow of information to competitors and reduce jamming. Gillette’s Personal Care Division, for example, spends less than \$200,000 for a simulated test that lasts three to five months. A live test market costs Gillette \$2 million, counting promotion and distribution, and takes one to two years to complete. Several mar-

keting research firms, such as ACNielsen Company, offer test marketing services to provide independent assessment of proposed products.

Clearly, not all products that are test marketed are launched. At times, problems discovered during test marketing cannot be resolved. Procter & Gamble, for example, test-marketed a new plastic wrap product called Impress in Grand Junction, Colorado, but decided not to launch the brand nationally based on the results of test marketing.

COMMERCIALIZATION

During the **commercialization** phase, plans for full-scale manufacturing and marketing must be refined and settled and budgets for the project prepared. Early in the commercialization phase, marketing management analyzes the results of test marketing to find out what changes in the marketing mix are needed before the product is introduced. The results of test marketing may tell marketers to change one or more of the product’s physical attributes, modify the distribution plans to include more retail outlets, alter promotional efforts, or change the product’s price. However, as more and more changes are made based on test marketing findings, the test marketing projections may become less valid.

During the early part of this stage, marketers not only must gear up for larger-scale production but also must make decisions about warranties, repairs, and replacement parts. The type of warranty a firm provides can be a critical issue for buyers, especially for expensive, technically complex goods such as appliances or frequently used items such as mattresses. Tempur-Pedic mattresses offer a

commercialization

Deciding on full-scale manufacturing and marketing plans and preparing budgets



© Jeff Greenberg/Alamy

Commercialization

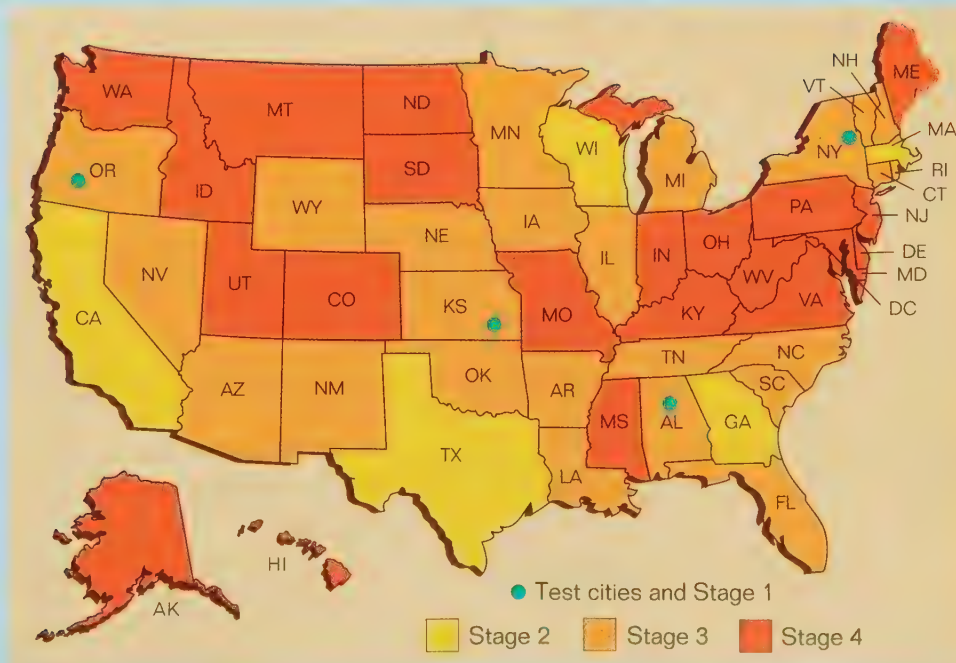
During early stages of commercialization, a product is often gradually rolled out.

90-day, no-risk, in-home trial of their innovative mattresses. If, after 90 days, the customer is not satisfied, the retailer will pick up the mattress for a modest return fee. Maytag also provides a money-back guarantee on its refrigerators. Establishing an effective system for providing repair services and replacement parts is necessary to maintain favorable customer relationships. Although the producer may furnish these services directly to buyers, it is more common for the producer to provide such services through regional service centers. Regardless of how services are provided, it is important to customers that they be performed quickly and correctly.

The product enters the market during the commercialization phase. When introducing a product, a firm may spend enormous sums for advertising, personal selling, and other types of promotion, as well as for plant and equipment. Such expenditures may not be recovered for several years. Smaller firms may find this process difficult, but even so, they may use press releases, blogs, podcasts, and other tools to capture quick feedback as well as promote the new product. Another low-cost promotional tool is product reviews in newspapers and magazines, which can be especially helpful when they are positive and target the same customers.

Products are not usually launched nationwide overnight but are introduced through a process called a *rollout*. Through a rollout, a product is introduced in stages, starting in one geographic area and gradually expanding into adjacent areas. For instance, Starbucks introduced its 31-ounce cup in the South and Southwest before introducing it into the rest of the country.²⁰ It may take several years to market the product nationally. Sometimes, the test cities are used as initial marketing areas, and introduction of the product becomes a natural extension of test marketing. A product test marketed in Albany, New York, Birmingham, Alabama, Eugene, Oregon, and Wichita, Kansas, could be introduced first in those cities. After the stage 1 introduction is complete, stage 2 could include market coverage of the states where the test cities are located. In stage 3, marketing efforts might be extended into adjacent states. All remaining states then would be covered in stage 4. Figure 11.3 demonstrates these four stages of commercialization.

FIGURE 11.3 Stages of Expansion into a National Market during Commercialization



Gradual product introductions do not always occur state by state; other geographic combinations, such as groups of counties that cross state borders, are sometimes used. Products destined for multinational markets also may be rolled out one country or region at a time. For instance, Sky Zone (a company marketing locations filled with giant trampolines on which people can pay to play dodge ball, take fitness classes, or simply jump around for \$9 per hour) first opened in Las Vegas, Nevada. After realizing success there, the company tested in St. Louis and Sacramento. It announced plans to unveil locations in Houston, Boston, Chicago, and Los Angeles as well.²¹ Gradual product introduction is desirable for several reasons. It reduces the risks of introducing a new product. If the product fails, the firm will experience smaller losses if it introduced the item in only a few geographic areas than if it marketed the product nationally. Furthermore, a company cannot introduce a product nationwide overnight because a system of wholesalers and retailers necessary to distribute the product cannot be established so quickly. The development of a distribution network may take considerable time. Also, the number of units needed to satisfy national demand for a successful product can be enormous, and a firm usually cannot produce the required quantities in a short time. Finally, gradual introduction allows for fine-tuning of the marketing mix to better satisfy target customers. Procter & Gamble, for example, originally conceived of Febreze deodorizer as a fabric-care product, but over time, the company's view of the highly successful brand evolved into an air-freshening line because that is how consumers indicated they were using it.²²

Despite the good reasons for introducing a product gradually, marketers realize that this approach creates some competitive problems. A gradual introduction allows competitors to observe what the firm is doing and to monitor results, just as the firm's own marketers are doing. If competitors see that the newly introduced product is successful, they may quickly enter the same target market with similar products. In addition, as a product is introduced region by region, competitors may expand their marketing efforts to offset promotion of the new product.

Product Differentiation through Quality, Design, and Support Services

Some of the most important characteristics of products are the elements that distinguish them from one another. **Product differentiation** is the process of creating and designing products so that customers perceive them as different from competing products. Customer perception is critical in differentiating products. Perceived differences might include quality, features, styling, price, and image. A crucial element used to differentiate one product from another is the brand. In this section, we examine three aspects of product differentiation that companies must consider when creating and offering products for sale: product quality, product design and features, and product support services. These aspects involve the company's attempt to create real differences among products. Later in this chapter, we discuss how companies position their products in the marketplace based on these three aspects.

product differentiation

Creating and designing products so that customers perceive them as different from competing products

quality

Characteristics of a product that allow it to perform as expected in satisfying customer needs

PRODUCT QUALITY

Quality refers to the overall characteristics of a product that allow it to perform *as expected* in satisfying customer needs. The words *as expected* are very important to this definition because quality usually means different things to different customers.

For some, durability signifies quality. Among the most durable products on the market today is the Craftsman line of tools at Sears; indeed, Sears provides a lifetime guarantee on the durability of its tools. Similarly in the household market, Cutco provides a lifetime warranty on their high-quality line of knives and cutlery. For other consumers, a product's ease of use may indicate quality.

The concept of quality also varies between consumer and business markets. For business markets, technical suitability, ease of repair, and company reputation are important characteristics. Unlike consumers, most businesses place far less emphasis on price than on product quality.

One important dimension of quality is **level of quality**, the amount of quality a product possesses. The concept is a relative one because the quality level of one product is difficult to describe unless it is compared with that of other products. The American Customer Satisfaction Index, compiled by the National Quality Research Center at the University of Michigan, ranks customer satisfaction among a wide variety of businesses. Dissatisfied customers may curtail their overall spending, which could stifle economic growth. In the full-service restaurant category, The Olive Garden received the highest satisfaction score, and Chili's was fourth.²³

A second important dimension is consistency. **Consistency of quality** refers to the degree to which a product has the same level of quality over time. Consistency means giving customers the quality they expect every time they purchase the product. As with level of quality, consistency is a relative concept. It implies a quality comparison within the same brand over time. For example, if FedEx delivers more than 99 percent of overnight packages on time, its service has a consistent quality.

PRODUCT DESIGN AND FEATURES

Product design refers to how a product is conceived, planned, and produced. Design is a very complex topic because it involves the total sum of all the product's physical characteristics. Many companies are known for the outstanding designs of their products: Sony for personal electronics, Hewlett-Packard for printers, Apple for computers and music players, and JanSport for backpacks. Good design is one of the best competitive advantages any brand can possess.

One component of design is **styling**, or the physical appearance of the product. The style of a product is one design feature that can allow certain products to sell very rapidly. Good design, however, means more than just appearance; it also involves a product's functionality and usefulness. For example, a pair of jeans may look great, but if they fall apart after three washes, clearly the design was poor. Most consumers seek products that both look good and function well.

Product features are specific design characteristics that allow a product to perform certain tasks. By adding or subtracting features, a company can differentiate its products from



Product Quality

Dyson provides high-quality products known for exceptional design and production.

level of quality

The amount of quality a product possesses

consistency of quality

The degree to which a product has the same level of quality over time

product design

How a product is conceived, planned, and produced

styling

The physical appearance of a product

product features

Specific design characteristics that allow a product to perform certain tasks

Emerging Trends in Marketing



Mobile Food Trucks Provide Service

You might soon see some of your favorite fast-food franchises out on the road. As mobile food trucks become increasingly popular, national franchises are exploring the possibilities. Franchisees from chains such as Cousins Submarines Inc. and Tasti D-Lite LLC have begun investing in mobile trucks to supplement their stores. Mobile food trucks change the service and availability dimension of food service, creating product differentiation. These mini restaurants on wheels are more affordable for franchisees and function as mobile advertising for companies. Owners have

mastered Facebook, Twitter, and Foursquare to keep their fans abreast of their locations, allowing them to alert customers wherever they go. Consumer interest in mobile food trucks has even prompted the Food Network to launch “The Great Food Truck Race.” As they become more successful, mobile franchises will likely need to examine the nature of their product mix to see if some products need to be added or deleted to fit consumer consumption patterns. These mobile food trucks create brand awareness and expand the availability of the product.^b

those of the competition. Chrysler promotes its line of minivans as having more features related to passenger safety—dual air bags, steel-reinforced doors, and integrated child safety seats—than any other auto company. Product features also can be used to differentiate products within the same company. For example, Nike offers both a walking shoe and a run-walk shoe for specific consumer needs as well as technology that can link to your iPod to track your distance traveled and calories burned. In these cases, the company’s products are sold with a wide range of features, from low-priced “base” or “stripped-down” versions to high-priced, prestigious, “feature-packed” ones. The automotive industry regularly sells products with a wide range of features. In general, the more features a product has, the higher is its price, and often, the higher is the perceived quality.

For a brand to have a sustainable competitive advantage, marketers must determine the product designs and features that customers desire. Information from marketing research efforts and from databases can help in assessing customers’ product design and feature preferences. Being able to meet customers’ desires for product design and features at prices they can afford is crucial to a product’s long-term success. Marketers must be careful not to misrepresent or overpromise regarding product features or product performance.

PRODUCT SUPPORT SERVICES

Many companies differentiate their product offerings by providing support services. Usually referred to as **customer services**, these services include any human or mechanical efforts or activities a company provides that add value to a product.²⁴ Examples of customer services include delivery and installation, financing arrangements, customer training, warranties and guarantees, repairs, layaway plans, convenient hours of operation, adequate parking, and information through toll-free numbers and websites. For example, Zappos, an online shoe retailer, has earned a reputation for excellent customer service in part owing to its 24-hour service and free, fast returns.²⁵

Whether as a major or minor part of the total product offering, all marketers of goods sell customer services. Providing good customer service may be the only way that a company can differentiate its products when all products in a market have essentially the same

customer services

Human or mechanical efforts or activities that add value to a product

quality, design, and features. This is especially true in the computer industry. When buying a laptop computer, for example, consumers shop more for fast delivery, technical support, warranties, and price than for product quality and design, as witnessed by the high volume of “off-the-shelf,” noncustomized, sometimes lagging in technology, discount laptops sold at Best Buy, Costco, Walmart, Target, and the like. Through research, a company can discover the types of services customers want and need. The level of customer service a company provides can profoundly affect customer satisfaction. Add-on features can enhance a product in the eyes of the consumer. Consumers often infer a higher level of quality from the mere availability of add-on services.²⁶

Product Positioning and Repositioning

Product positioning refers to the decisions and activities intended to create and maintain a certain concept of the firm’s product (relative to competitive brands) in customers’ minds. When marketers introduce a product, they try to position it so that it appears to have the characteristics that the target market most desires. This projected image is crucial. Crest is positioned as a fluoride toothpaste that fights cavities, and Rembrandt is positioned as a whitening toothpaste to fight intense stain.

PERCEPTUAL MAPPING

A product’s position is the result of customers’ perceptions of the product’s attributes relative to those of competitive brands. Buyers make numerous purchase decisions on a regular basis. To avoid a continuous reevaluation of numerous products, buyers tend to group, or “position,” products in their minds to simplify buying decisions. Rather than allowing customers to position products independently, marketers often try to influence and shape

product positioning

Creating and maintaining a certain concept of a product in customers’ minds



Courtesy of CESAR® Canine Cuisine



© The Nutro Company/Andy Anderson

Product Positioning

These two dog food companies compete in different and overlapping markets. One targets pet food feeding as a way to have a better relationship with a dog, and the other is sensitive to pet food allergies.

FIGURE 11.4 Hypothetical Perceptual Map for Pain Relievers

consumers' concepts or perceptions of products through advertising. Marketers sometimes analyze product positions by developing perceptual maps, as shown in Figure 11.4. Perceptual maps are created by questioning a sample of consumers about their perceptions of products, brands, and organizations with respect to two or more dimensions. To develop a perceptual map like the one in Figure 11.4, respondents would be asked how they perceive selected pain relievers in regard to price and type of pain for which the products are used. Also, respondents would be asked about their preferences for product features to establish "ideal points" or "ideal clusters," which represent a consensus about a specific group of customers' desires in terms of product features. Then marketers can see how their brand is perceived compared with the ideal points.

BASES FOR POSITIONING

Marketers can use several bases for product positioning. A common basis for positioning products is to use competitors. A firm can position a product to compete head-on with another brand, as PepsiCo has done against Coca-Cola, or to avoid competition, as 7UP has done relative to other soft-drink producers. Head-to-head competition may be a marketer's positioning objective if the product's performance characteristics are at least equal to those of competitive brands and if the product is priced lower. Head-to-head positioning may be appropriate even when the price is higher if the product's performance characteristics are superior. For example, the Chevy Volt is going head-to-head with the Nissan Leaf. Because the Volt is equipped with a backup gas generator, which can take over should the car run low on electricity, GM claims that the Volt is less likely to leave drivers stranded on the way to their destinations (the Nissan is fully electric). The company is trying to position the Volt "as a car first and electric second."²⁷ Conversely, positioning to avoid competition may be best when the product's performance characteristics do not differ significantly from those of competing brands. Moreover, positioning a brand to avoid competition may

be appropriate when that brand has unique characteristics that are important to some buyers. Volvo, for example, has for years positioned itself away from competitors by focusing on the safety characteristics of its cars. Whereas some auto companies mention safety issues in their advertisements, many are more likely to focus on style, fuel efficiency, performance, or terms of sale. Avoiding competition is critical when a firm introduces a brand into a market in which the company already has one or more brands. Marketers usually want to avoid cannibalizing sales of their existing brands unless the new brand generates substantially larger profits.

A product's position can be based on specific product attributes or features. For example, the Apple's iPhone is positioned based on product attributes such as its unique shape, its easy-to-use touchscreen, and its access to iTunes. If a product has been planned properly, its features will give it the distinct appeal needed. Style, shape, construction, and color help to create the image and the appeal. If buyers can easily identify the benefits, they are, of course, more likely to purchase the product. When the new product does not offer certain preferred attributes, there is room for another new product.

Other bases for product positioning include price, quality level, and benefits provided by the product. For example, Era laundry detergent provides stain treatment and stain removal. Also, the target market can be a positioning basis caused by marketing. This type of positioning relies heavily on promoting to the types of people who use the product.

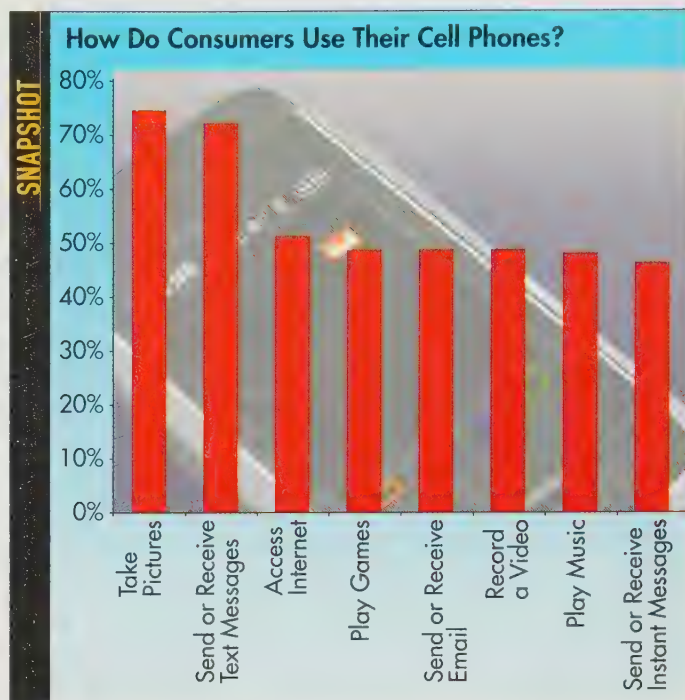
REPOSITIONING

Positioning decisions are not just for new products. Evaluating the positions of existing products is important because a brand's market share and profitability may be strengthened by product repositioning. For example, several years ago Kraft was on the verge of discontinuing Cheez Whiz because its sales had declined considerably. After Kraft marketers repositioned Cheez Whiz as a fast, convenient, microwavable cheese sauce, its sales rebounded to new heights. When introducing a new product into a product line, one or more existing brands may have to be repositioned to minimize cannibalization of established brands and thus ensure a favorable position for the new brand.

Repositioning can be accomplished by physically changing the product, its price, or its distribution. Rather than making any of these changes, marketers sometimes reposition a product by changing its image through promotional efforts. Finally, a marketer may reposition a product by aiming it at a different target market.

Product Deletion

Generally, a product cannot satisfy target market customers and contribute to the achievement of an organization's overall goals indefinitely. **Product deletion** is the process of eliminating a product from the product mix, usually because it no longer satisfies a sufficient



Source: Pew Research Center's Internet & American Life Project, "Americans Use Phones More for Games, Internet," July 7, 2010, www.msnbc.msn.com/id/38126866 (accessed July 6, 2011).

product deletion

Eliminating a product from the product mix

number of customers. Condé Nast, for example, discontinued its iconic *Gourmet* magazine due to reduced advertising support as consumers turned to quick, accessible, and affordable cooking options.²⁸ A declining product reduces an organization's profitability and drains resources that could be used to modify other products or develop new ones. A marginal product may require shorter production runs, which can increase per-unit production costs. Finally, when a dying product completely loses favor with customers, the negative feelings may transfer to some of the company's other products.

Most organizations find it difficult to delete a product. A decision to drop a product may be opposed by managers and other employees who believe that the product is necessary to the product mix. Salespeople who still have some loyal customers are especially upset when a product is dropped. Considerable resources and effort are sometimes spent trying to change a slipping product's marketing mix to improve its sales and thus avoid having to eliminate it.

Some organizations delete products only after the products have become heavy financial burdens. A better approach is some form of systematic review in which each product is evaluated periodically to determine its impact on the overall effectiveness of the firm's product mix. Such a review should analyze the product's contribution to the firm's sales for a given period, as well as estimate future sales, costs, and profits associated with the product. It also should gauge the value of making changes in the marketing strategy to improve the product's performance. A systematic review allows an organization to improve product performance and ascertain when to delete products. General Motors decided to delete the Hummer, Saturn, and Pontiac brands in order to lower costs, improve reputation, and become more profitable.

There are three basic ways to delete a product: phase it out, run it out, or drop it immediately (see Figure 11.5). A *phase-out* allows the product to decline without a change in the marketing strategy; no attempt is made to give the product new life. Nikon, for example, simply allowed sales of its discontinued film cameras to continue until their supplies ran out.²⁹ A *run-out* exploits any strengths left in the product. Intensifying marketing efforts in core markets or eliminating some marketing expenditures, such as advertising, may cause a sudden jump in profits. This approach is commonly taken for technologically obsolete products, such as older models of computers and calculators. Often, the price is reduced to get a sales spurt. The third alternative, an *immediate drop* of an unprofitable product, is the best strategy when losses are too great to prolong the product's life.

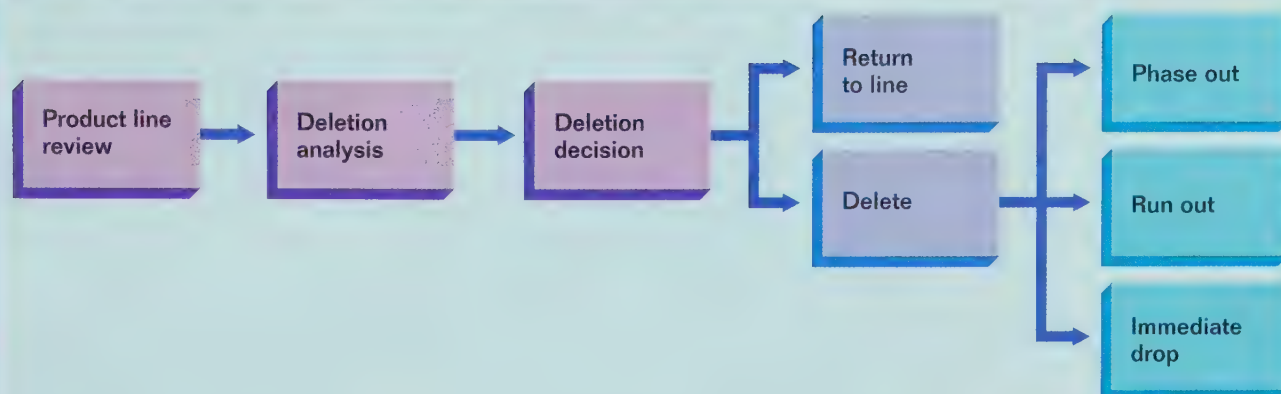
Green Marketing



Inventor Wages War against Plastic Bags

In the 1970s, Gordon Dancy invented a plastic bag and an accompanying dispensing system. At the time, people worried about the deforestation caused by paper bag production and saw plastic as a better alternative. Today, the tables have turned. Plastic bags have been blamed for clogging waterways, endangering wildlife, and overwhelming landfills. Many U.S. cities have banned them or are charging for their use. Toward the end of his life, Dancy reversed his position on plastic bags and his daughter,

Kristen Brown, has made it her mission to replace them all together. Brown—mother, environmental activist, and founder of My Eco—has created an easy-to-use-reusable four-bag system ideal for people on the go. As more people go green, reusable bags are flooding the market. To make My Eco bags stand out, Brown has partnered with grocery stores. Together they sell the system at a discount, sending the money saved to local schools. My Eco also sells nationally at The Container Store.^c

FIGURE 11.5 Product Deletion Process

Source: Martin L. Bell, *Marketing: Concepts and Strategy*, 3rd ed., p. 267; Copyright © 1979, Houghton Mifflin Company. Reprinted by permission of Mrs. Martin L. Bell.

Managing Services as Products

Many products are services rather than tangible goods. The organizations that market service products include for-profit firms, such as those offering financial, personal, and professional services, and nonprofit organizations, such as educational institutions, churches, charities, and governments. In this section, we focus initially on the growing importance of service industries in our economy. Then we address the unique characteristics of services. Finally, we deal with the challenges these characteristics pose in developing and managing marketing mixes for services.

NATURE AND IMPORTANCE OF SERVICES

All products—whether goods, services, or ideas—are to some extent intangible. Services are usually provided through the application of human and/or mechanical efforts directed at people or objects. For example, a service such as education involves the efforts of service providers (teachers) directed at people (students), whereas janitorial and interior decorating services direct their efforts at objects. Services also can involve the use of mechanical efforts directed at people (air or mass transportation) or objects (freight transportation). A wide variety of services, such as health care and landscaping, involve both human and mechanical efforts. Although many services entail the use of tangibles such as tools and machinery, the primary difference between a service and a good is that a service is dominated by the intangible portion of the total product. Services, as products, should not be confused with the related topic of customer services. While customer service is part of the marketing of goods, service marketers also provide customer services.

The increasing importance of services in the U.S. economy has led many people to call the United States the world's first service economy. In most developed countries, including Germany, Japan, Australia, and Canada, services account for about 70 percent of the country's gross domestic product (GDP). More than half of new businesses are service businesses, and service employment is expected to continue to grow. These industries have absorbed much of the influx of women and minorities into the workforce. In the United States, some customer-contact jobs, especially call centers, have been outsourced—into the homes of U.S.

Services as Products

Dry cleaners provide laundry services for consumers.



© Flirt/SuperStock

workers, especially women. Several companies, including Carnival Cruise Lines, JetBlue, and Hilton Hotels, now use “homesourcing” to fill thousands of customer service jobs that were once contracted to foreign countries.³⁰

CHARACTERISTICS OF SERVICES

The issues associated with marketing service products are not exactly the same as those associated with marketing goods. To understand these differences, it is first necessary to understand the distinguishing characteristics of services. Services have six basic characteristics: intangibility, inseparability of production and consumption, perishability, heterogeneity, client-based relationships, and customer contact.³¹

Intangibility

As already noted, the major characteristic that distinguishes a service from a good is intangibility. **Intangibility** means a service is not physical and therefore cannot be touched. For example, it is impossible to touch the education that students derive from attending classes; the intangible benefit is becoming more knowledgeable. In addition, services cannot be physically possessed. Products range from pure goods (tangible) to pure services (intangible). Pure goods, if they exist at all, are rare because practically all marketers of goods also provide customer services. Intangible, service-dominant products such as education and health care are clearly service products. Of course, some products, such as a restaurant meal or a hotel stay, have both tangible and intangible dimensions.

intangibility

A service that is not physical and cannot be touched

inseparability

Being produced and consumed at the same time

Inseparability of Production and Consumption

Another important characteristic of services that creates challenges for marketers is **inseparability**, which refers to the fact that the production of a service cannot be separated from its consumption by customers. For example, air passenger service is produced

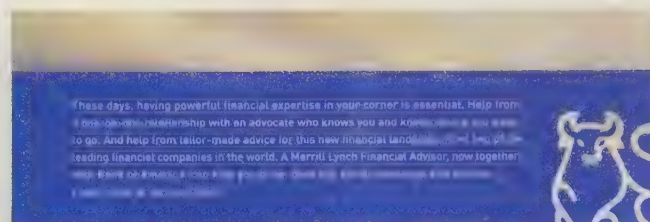
and consumed simultaneously. In other words, services are often produced, sold, and consumed at the same time. In goods marketing, a customer can purchase a good, take it home, and store it until he or she is ready to use it. The manufacturer of the good may never see an actual customer. Customers, however, often must be present at the production of a service (such as marriage counseling or surgery) and cannot take the service home. Indeed, both the service provider and the customer must work together to provide the service's full value.³² Because of inseparability, customers not only want a specific type of service but expect it to be provided in a specific way by a specific individual. For example, the production and consumption of a medical exam occur simultaneously, and the patient knows in advance who the physician is and generally understands how the exam will be conducted. Inseparability implies a shared responsibility between the customer and service provider. As a result, training programs for employees should stress the customer's role in the service experience to elevate their perceptions of shared responsibility and positive feelings.³³

Perishability

Services are characterized by **perishability** because the unused service capacity of one time period cannot be stored for future use. For example, empty seats on an air flight today cannot be stored and sold to passengers at a later date. Other examples of service perishability include unsold basketball tickets, unscheduled dentists' appointment times, and empty hotel rooms. Although some goods, such as meat, milk, and produce, are perishable, goods generally are less perishable than services. If a pair of jeans has been sitting on a department store shelf for a week, someone still can buy them the next day. Goods marketers can handle the supply-demand problem through production scheduling and inventory techniques. Service marketers do not have the same advantage, and they face several hurdles in trying to balance supply and demand. They can, however, plan for demand that fluctuates according to day of the week, time of day, or season.

Heterogeneity

Services delivered by people are susceptible to **heterogeneity**, or variation in quality. Quality of manufactured goods is easier to control with standardized procedures, and mistakes are easier to isolate and correct. Because of the nature of human behavior, however, it is very difficult for service providers to maintain a consistent quality of service delivery. This variation in quality can occur from one organization to another, from one service person to another within the same service facility, and from one service facility to another within the same organization. For example, the retail clerks in one bookstore may be more knowledgeable and therefore more helpful than those in another bookstore owned by the same chain. Heterogeneity usually increases as the degree of labor intensiveness increases. Many services, such as auto repair, education, and hairstyling, rely heavily on human labor. Other services, such as telecommunications, health clubs, and public transportation, are more equipment intensive. People-based services are often prone to fluctuations in quality from one time



Characteristics of Services

Legal services, such as those provided by Merrill Lynch, must be provided directly to consumers.

perishability

The inability of unused service capacity to be stored for future use

heterogeneity

Variation in quality

period to the next. For example, the fact that a hairstylist gives a customer a good haircut today does not guarantee that customer a haircut of equal quality from the same hairstylist at a later date. Equipment-based services, in contrast, suffer from this problem to a lesser degree than people-based services. For instance, automated teller machines have reduced inconsistency in the quality of teller services at banks, and bar-code scanning has improved the accuracy of service at the checkout counters in grocery stores.

Client-Based Relationships

The success of many services depends on creating and maintaining **client-based relationships**, interactions with customers that result in satisfied customers who use a service repeatedly over time.³⁴ In fact, some service providers, such as lawyers, accountants, and financial advisers, call their customers *clients* and often develop and maintain close long-term relationships with them. For such service providers, it is not enough to attract customers. They are successful only to the degree to which they can maintain a group of clients who use their services on an ongoing basis. For example, an accountant may serve a family in his or her area for decades. If the members of this family like the quality of the accountant's services, they are likely to recommend the accountant to other families. If several families repeat this positive word-of-mouth communication, the accountant likely will acquire a long list of satisfied clients.

Social media have made it easier for customers to share information about service companies. People may ask friends from online communities like Facebook or reference service rating sites like Angie's List, Service Magic, and Google Reviews (Google's service rating system). Indeed, researchers have found that word-of-mouth communication plays a key role in services, particularly for consumers with innovative personalities.³⁵ Word-of-mouth is a key factor in creating and maintaining client-based relationships. To ensure that it actually occurs, the service provider must take steps to build trust, demonstrate customer commitment, and satisfy customers so well that they become very loyal to the provider and unlikely to switch to competitors.

Customer Contact

Not all services require a high degree of customer contact, but many do. **Customer contact** refers to the level of interaction between the service provider and the customer that is necessary to deliver the service. High-contact services include health-care, real estate, legal, and spa services. Examples of low-contact services are tax preparation, auto repair, and dry cleaning. Some service-oriented businesses are reducing their level of customer contact through technology. Most airlines use self-service kiosks to check in and obtain boarding passes. Note that high-contact services generally involve actions directed toward people, who must be present during production. A hairstylist's customer, for example, must be present during the styling process. When the customer must be present, the process of production may be just as important as its final outcome. Although it is sometimes possible for the service provider to go to the customer, high-contact services typically require that the customer go to the production facility. Thus, the physical appearance of the facility may be a major component of the customer's overall evaluation of the service. Even in low-contact service situations, the appearance of the facility is important because the customer likely will need to be present to initiate and finalize the service transaction. Consider customers of auto-repair services. They bring in the vehicle and describe its symptoms, but often do not remain during the repair process.

Employees of high-contact service providers are part of a very important ingredient in creating satisfied customers. A fundamental precept of customer contact is that satisfied employees lead to satisfied customers. In fact, research indicates that employee

client-based relationships

Interactions that result in satisfied customers who use a service repeatedly over time

customer contact

The level of interaction between provider and customer needed to deliver the service



Level of Customer Contact

There is a high level of customer contact associated with medical services.

satisfaction is the single most important factor in providing high service quality. Thus, to minimize the problems that customer contact can create, service organizations must take steps to understand and meet the needs of employees by training them adequately, empowering them to make more decisions, and rewarding them for customer-oriented behavior.³⁶ The giant electronics and appliance retailer, Best Buy, which is known for providing knowledgeable customer service with technology and consumer electronics, completely revamped its training program. The company has created a wiki site that allows employees to share information and provides employees with several learning mediums to choose from, which include paper-based, e-learning, audio training, and videos.³⁷

CREATING MARKETING MIXES FOR SERVICES

The characteristics of services create a number of challenges for service marketers (see Table 11.2). These challenges are especially evident in the development and management of marketing mixes for services. Although such mixes contain the four major marketing mix variables—product, price, distribution, and promotion—the characteristics of services require that marketers consider additional issues.

Development of Services

A service offered by an organization generally is a package, or bundle, of services consisting of a core service and one or more supplementary services. A *core service* is the basic service experience or commodity that a customer expects to receive. A *supplementary service* is a supportive one related to the core service that is used to differentiate the service bundle from that of competitors. For example, when a student attends a tutoring session for a class, the core service is the tutoring. Bundled with the core service might be access to outlines with additional information, handouts with practice questions, or

TABLE 11.2 Service Characteristics and Marketing Challenges

Service Characteristics	Resulting Marketing Challenges
Intangibility	Difficult for customer to evaluate. Customer does not take physical possession. Difficult to advertise and display. Difficult to set and justify prices. Service process usually not protectable by patents.
Inseparability of production and consumption	Service provider cannot mass-produce services. Customer must participate in production. Other consumers affect service outcomes. Services are difficult to distribute.
Perishability	Services cannot be stored. Balancing supply and demand is very difficult. Unused capacity is lost forever. Demand may be very time-sensitive.
Heterogeneity	Service quality is difficult to control. Service delivery is difficult to standardize.
Client-based relationships	Success depends on satisfying and keeping customers over the long term. Generating repeat business is challenging. Relationship marketing becomes critical.
Customer contact	Service providers are critical to delivery. Requires high levels of service employee training and motivation. Changes a high-contact service into a low-contact service to achieve lower costs without reducing customer satisfaction.

Sources: K. Douglas Hoffman and John E. G. Bateson, *Essentials of Services Marketing* (Mason, OH: South-Western, 2001); Valarie A. Zeithaml, A. Parasuraman, and Leonard L. Berry, *Delivering Quality Service: Balancing Customer Perceptions and Expectations* (New York: Free Press, 1990); Leonard L. Berry and A. Parasuraman, *Marketing Services: Competing through Quality* (New York: Free Press, 1991), p. 5.

online service like an e-mail address or chat room for questions outside the designated tutoring time.

As discussed earlier, heterogeneity results in variability in service quality and makes it difficult to standardize services. However, heterogeneity provides one advantage to service marketers: it allows them to customize their services to match the specific needs of individual customers. Customization plays a key role in providing competitive advantage for the service provider. Being able to personalize the service to fit the exact needs of the customer accommodates individual needs, wants, or desires.³⁸ Subway, for example, tries to let each customer participate in developing his or her own customized sandwich. IBM determines a business's needs and then develops information technology services to provide a customized application. Health care is an example of an extremely customized service; the services provided differ from one patient to the next.

Such customized services can be expensive for both provider and customer, and some service marketers therefore face a dilemma: how to provide service at an acceptable level of quality in an efficient and economic manner and still satisfy individual customer needs. To cope with this problem, some service marketers offer standardized packages. For example,

a lawyer may offer a divorce package at a specified price for an uncontested divorce. When service bundles are standardized, the specific actions and activities of the service provider usually are highly specified. Automobile quick-lube providers frequently offer a service bundle for a single price; the specific actions to be taken are quite detailed about what will be done to a customer's car. Various other equipment-based services are also often standardized into packages. For instance, cable television providers frequently offer several packages, such as "Basic," "Standard," "Premier," and "Hollywood." The characteristic of intangibility makes it difficult for customers to evaluate a service prior to purchase. Intangibility requires service marketers, such as hairstylists, to market promises to customers. The customer is forced to place some degree of trust in the service provider to perform the service in a manner that meets or exceeds those promises. Service marketers must guard against making promises that raise customer expectations beyond what they can provide. To cope with the problem of intangibility, marketers employ tangible cues, such as well-groomed, professional-appearing contact personnel and clean, attractive physical facilities, to help assure customers about the quality of the service.

Most service providers uniform at least some of their high-contact employees. Uniforms help to make the service experience more tangible, and they serve as physical evidence to signal quality, create consistency, and send cues to suggest a desired image.³⁹ Consider the professionalism, experience, and competence conveyed by an airline pilot's uniform. Life insurance companies sometimes try to make the quality of their policies more tangible by putting them on very high-quality paper and enclosing them in leather sheaths. Because customers often rely on brand names as an indicator of product quality, service marketers at organizations whose names are the same as their service brand names should strive to build a strong national image for their companies. For example, American Express, McDonald's, eBay, American Life, and America Online try to maintain strong, positive national company images because these names are the brand names of the services they provide.

The inseparability of production and consumption and the level of customer contact also influence the development and management of services. The fact that customers are present during the production of a service means that other customers can affect the outcome of the service. For instance, if a nonsmoker dines in a restaurant without a no-smoking section, the overall quality of service experienced by the nonsmoking customer declines if smokers are present. Service marketers can reduce these problems by encouraging customers to share the responsibility of maintaining an environment that allows all participants to receive the intended benefits of the service.

Pricing of Services

Services should be priced so as to reflect consumer price sensitivity, the nature of the transaction, and its costs.⁴⁰ Prices for services can be established on several different bases. The prices of pest-control services, dry cleaning, carpet cleaning, and a physician's consultation usually are based on the performance of specific tasks. Other service prices are based on time. For example, attorneys, consultants, counselors, piano teachers, and plumbers often charge by the hour or day.

Some services use demand-based pricing. When demand for a service is high, the price is also high; when demand for a service is low, so is the price. The perishability of services means that when demand is low, the unused capacity cannot be stored and is therefore lost forever. Every empty seat on an airline flight or in a movie theater represents lost revenue. Some services are very time-sensitive because a significant number of customers desire the service at a particular time. This point in time is called *peak demand*. A provider of time-sensitive services brings in most of its revenue during peak demand. For an airline, peak demand is usually early and late in the day. Providers of time-sensitive services often use demand-based pricing to manage the problem of balancing supply and demand. They

Distribution of Services

UPS offers in-person retail services as well as online services.



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charge top prices during peak demand and lower prices during off-peak demand to encourage more customers to use the service. This is why the price of a matinee movie is often half the price of the same movie shown at night.

When services are offered to customers in a bundle, marketers must decide whether to offer the services at one price, price them separately, or use a combination of the two methods. For example, some hotels offer a package of services at one price, whereas others charge separately for the room, phone service, and breakfast. Some service providers offer a one-price option for a specific bundle of services and make add-on bundles available at additional charges. For example, a number of cable television companies offer a standard package of channels for one price and offer add-on channel packages for additional charges. Telephone services, such as call waiting and caller ID, are frequently bundled and sold as a package for one price.

Because of the intangible nature of services, customers rely heavily at times on price as an indicator of quality. If customers perceive the available services in a service category as being similar in quality, and if the quality of such services is difficult to judge even after these services are purchased, customers may seek out the lowest-priced provider. For example, many customers seek auto insurance providers with the lowest rates. If the quality of different service providers is likely to vary, customers may rely heavily on the price-quality association. For example, if you have to have an appendectomy, will you choose the surgeon who charges an average price of \$1,500 or the surgeon who will take your appendix out for \$399?

Distribution of Services

Marketers deliver services in various ways. In some instances customers go to a service provider's facility. For instance, most health-care, dry-cleaning, and spa services are delivered at the service providers' facilities. Some services are provided at the customer's home or business. Lawn care, air-conditioning and heating repair, and carpet cleaning are examples. Some services are delivered primarily at "arm's length," meaning that no face-to-face contact occurs between the customer and the service provider. Several equipment-based services are

delivered at arm's length, including electric, Internet, cable television, and telephone services. Providing high-quality customer service at arm's length can be costly but essential in keeping customers satisfied and maintaining market share. For example, many airlines, although trying to cut costs, are also increasing spending on overhauling their websites to make them more user-friendly and thus serve customers better.

Marketing channels for services usually are short and direct, meaning that the producer delivers the service directly to the end user. Some services, however, use intermediaries. For example, travel agents facilitate the delivery of airline services, independent insurance agents participate in the marketing of various insurance policies, and financial planners market investment services.

Service marketers are less concerned with warehousing and transportation than are goods marketers. They are very concerned, however, about inventory management, especially balancing supply and demand for services. The service characteristics of inseparability and level of customer contact contribute to the challenges of demand management. In some instances, service marketers use appointments and reservations as approaches for scheduling the delivery of services. Health-care providers, attorneys, accountants, auto mechanics, and restaurants often use reservations or appointments to plan and pace the delivery of their services. To increase the supply of a service, marketers use multiple service sites and also increase the number of contact service providers at each site. National and regional eye-care and hair-care services are examples.

To make delivery more accessible to customers and to increase the supply of a service, as well as reduce labor costs, some service providers have decreased the use of contact personnel and replaced them with equipment. In other words, they have changed a high-contact service into a low-contact one. The banking industry is an example. By installing ATMs, banks have increased production capacity and reduced customer contact. In addition, numerous automated banking services are now available by telephone 24 hours a day. Such services have helped to lower costs by reducing the need for customer-service representatives. Changing the delivery of services from human to equipment has created some problems, however.

Promotion of Services

The intangibility of services results in several promotion-related challenges to service marketers. Because it may not be possible to depict the actual performance of a service in an advertisement or to display it in a store, explaining a service to customers can be a difficult task. Promotion of services typically includes tangible cues that symbolize the service. Consider Trans America, which uses its pyramid-shaped building to symbolize strength, security, and reliability, important features associated with insurance and other financial services. Similarly, the hands Allstate uses in its ads symbolize personalized service and trustworthy, caring representatives. Although these symbols have nothing to do with the actual services, they make it much easier for customers to understand the intangible attributes associated with insurance services. To make a service more tangible, advertisements for services often

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Promotion of Services

Marketers often make services more tangible through promotion by utilizing symbols or objects associated with the service or organization, such as Travelocity's use of the "traveling gnome."

Entrepreneurship in Marketing



Viewpoints Network Creates a Business around Brand Management

As more companies turn toward social media to promote their products, Viewpoints Network is there to help. Founded by entrepreneur Matt Moog in 2006, Viewpoints Network consists of a product review website (the second largest) and a software suite to help companies use social media to create effective marketing campaigns. Clients include such well-known companies as Procter & Gamble, Sears, and Kraft.

Viewpoints Network utilizes the power of viral marketing with more than a million members registered on its website. When a company hires Viewpoints Network to promote a brand, Viewpoints Network invites members, specifically opinion leaders, to try the product. Members then write product reviews and share them with their friends on sites like Twitter and Facebook. This represents a growing trend where consumers use the feedback of other consumers—many that they've never met—in their purchasing decisions. According to founder Matt Moog, this will require a significant change in marketing: the incorporation of the consumer into the marketing mix.^d

show pictures of facilities, equipment, and service personnel. Marketers may also promote their services as a tangible expression of consumers' lifestyles. The Thai cosmetics company Mistine, for example, featured famous Thai movie actress Petchara Chaowarat to present the company's "Diamond" lipstick collection. By utilizing Chaowarat—considered the "biggest-name actress in Thailand"—to promote the brand, Mistine not only made its brand appear prestigious but also engaged in cause-related marketing by agreeing to donate part of the lipstick's revenue to the Thailand Association for the Blind (Petchara Chaowarat was struck by blindness during her acting career).⁴¹

Compared with goods marketers, service providers are more likely to promote price, guarantees, performance documentation, availability, and training and certification of contact personnel. For example, it is common to promote degrees and certifications earned by trainers as a way to ensure customers that the trainers will help them reach their fitness goals.⁴² When preparing advertisements, service marketers are careful to use concrete, specific language to help make services more tangible in the minds of customers. Service companies are also careful not to promise too much regarding their services so that customer expectations do not rise to unattainable levels.

Through their actions, service contact personnel can be directly or indirectly involved in the personal selling of services. Personal selling is often important because personal influence can help the customer visualize the benefits of a given service. Because service contact personnel may engage in personal selling, some companies invest heavily in training. Because of the heterogeneity and intangibility of services, word-of-mouth communication is important in service promotion. What other people say about a service

provider can have a tremendous impact on whether an individual decides to use that provider. Some service marketers attempt to stimulate positive word-of-mouth communication by asking satisfied customers to tell their friends and associates about the service and may even provide incentives to the current or new customers. Banfield, The Pet Hospital, has locations inside several PetSmart stores and places referral certificates inside every patient room. These certificates allow first-time clients to receive a free office visit and physical exam for their pet.⁴³

Organizing to Develop and Manage Products

After reviewing the concepts of product line and mix, positioning, and repositioning, it should be obvious that managing products is a complex task. Often, the traditional functional form of organization, in which managers specialize in business functions such as advertising, sales, and distribution, does not fit a company's needs. In this case,

management must find an organizational approach that accomplishes the tasks necessary to develop and manage products. Alternatives to functional organization include the product or brand manager approach, the market manager approach, and the venture team approach.

A **product manager** is responsible for a product, a product line, or several distinct products that make up an interrelated group within a multiproduct organization. A **brand manager** is responsible for a single brand. Kraft, for example, has one brand manager for Nabisco Oreos, its number-one selling cookie, and one for Oscar Mayer Lunchables. Both product and brand managers operate cross-functionally to coordinate the activities, information, and strategies involved in marketing an assigned product. Product managers and brand managers plan marketing activities to achieve objectives by coordinating a mix of distribution, promotion (especially sales promotion and advertising), and price. They must consider packaging and branding decisions and work closely with personnel in research and development, engineering, and production. Marketing research helps product managers understand consumers and find target markets. Because luxury brands such as BMW and Porsche can have their brand image reduced by association with their producers' other mass-market brands, brand managers must balance their brands' independent image with associated brands of the firm. The product or brand manager approach to organization is used by many large, multiple-product companies.

A **market manager** is responsible for managing the marketing activities that serve a particular group of customers. This organizational approach is particularly effective when a firm engages in different types of marketing activities to provide products to diverse customer groups. A company might have one market manager for business markets and another for consumer markets. Markets also could be divided by geographic region. For example, the Jack-in-the-Box fast-food chain offers different menu items in New Mexico than it does in Oregon. Because Hindus believe cows are sacred, and India has a large vegetarian population, McDonald's offers lamb and vegetarian options in lieu of beef burgers at its restaurants in India. The chains recognize that different markets have different preferences. These broad market categories might be broken down into more limited market responsibilities.

A **venture team** creates entirely new products that may be aimed at new markets. Unlike a product or market manager, a venture team is responsible for all aspects of developing a product: research and development, production and engineering, finance and accounting, and marketing. Venture team members are brought together from different functional areas of the organization. In working outside established divisions, venture teams have greater flexibility to apply inventive approaches to develop new products that can take advantage of opportunities in highly segmented markets. Companies are increasingly using such cross-functional teams for product development in an effort to boost product quality. When a new product has demonstrated commercial potential, team members may return to their functional areas, or they may join a new or existing division to manage the product.

product manager

The person within an organization responsible for a product, a product line, or several distinct products that make up a group

brand manager

The person responsible for a single brand

market manager

The person responsible for managing the marketing activities that serve a particular group of customers

venture team

A cross-functional group that creates entirely new products that may be aimed at new markets

CHAPTER REVIEW

1 Understand how companies manage existing products through line extensions and product modifications.

Organizations must be able to adjust their product mixes to compete effectively and achieve their goals. Using existing products, a product mix can be improved through line extension and through product modification. A line extension is the development of a product closely related to one or more products in the existing line but designed specifically to meet different customer needs. Product modification is the changing of one or more characteristics of a product. This approach can be achieved through quality modifications, functional modifications, and aesthetic modifications.

2 Describe how businesses develop a product idea into a commercial product.

Before a product is introduced, it goes through a seven-phase new-product development process. In the idea-generation phase, new-product ideas may come from internal or external sources. In the process of screening, ideas are evaluated to determine whether they are consistent with the firm's overall objectives and resources. Concept testing, the third phase, involves having a small sample of potential customers review a brief description of the product idea to determine their initial perceptions of the proposed product and their early buying intentions. During the business analysis stage, the product idea is evaluated to determine its potential contribution to the firm's sales, costs, and profits. In the product development stage, the organization determines if it is technically feasible to produce the product and if it can be produced at a cost low enough to make the final price reasonable. Test marketing is a limited introduction of a product in areas chosen to represent the intended market. Finally, in the commercialization phase, full-scale production of the product begins, and a complete marketing strategy is developed.

3 Know the importance of product differentiation and the elements that differentiate one product from another.

Product differentiation is the process of creating and designing products so that customers perceive them

as different from competing products. Product quality, product design and features, and product support services are three dimensions of product differentiation that companies consider when creating and marketing products.

4 Explain product positioning and repositioning.

Product positioning refers to the decisions and activities that create and maintain a certain concept of the firm's product in the customer's mind. Organizations can position a product to compete head to head with another brand if the product's performance is at least equal to the competitive brand's and if the product is priced lower. When a brand possesses unique characteristics that are important to some buyers, positioning it to avoid competition is appropriate. Companies also increase an existing brand's market share and profitability through product repositioning.

5 Understand how product deletion is used to improve product mixes.

Product deletion is the process of eliminating a product that no longer satisfies a sufficient number of customers. Although a firm's personnel may oppose product deletion, weak products are unprofitable, consume too much time and effort, may require shorter production runs, and can create an unfavorable impression of the firm's other products. A product mix should be systematically reviewed to determine when to delete products. Products to be deleted can be phased out, run out, or dropped immediately.

6 Understand the characteristics of services and how these characteristics present challenges when developing marketing mixes for service products.

Services are intangible products involving deeds, performances, or efforts that cannot be physically possessed. They have six fundamental characteristics: intangibility, inseparability of production and consumption, perishability, heterogeneity, client-based relationships, and customer contact. Intangibility means that a service cannot be seen, touched, tasted, or smelled. Inseparability refers to the fact that the production of a service cannot be separated

from its consumption. Perishability means that unused service capacity of one time period cannot be stored for future use. Heterogeneity is variation in service quality. Client-based relationships are interactions with customers that lead to the repeated use of a service over time. Customer contact is the interaction needed to deliver a service between providers and customers.

7 Be familiar with organizational structures used for managing products.

Often, the traditional functional form or organization does not lend itself to the complex task of

developing and managing products. Alternative organizational forms include the product or brand manager approach, the market manager approach, and the venture team approach. A product manager is responsible for a product, a product line, or several distinct products that make up an inter-related group within a multiproduct organization. A brand manager is a product manager who is responsible for a single brand. A market manager is responsible for managing the marketing activities that serve a particular group or class of customers. A venture team is sometimes used to create entirely new products that may be aimed at new markets.

ONLINE RESOURCES

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ISSUES FOR DISCUSSION AND REVIEW

1. What is a line extension, and how does it differ from a product modification?
2. Compare and contrast the three major approaches to modifying a product.
3. Identify and briefly explain the seven major phases of the new-product development process.
4. Do small companies that manufacture just a few products need to be concerned about developing and managing products? Why or why not?
5. Why is product development a cross-functional activity within an organization? That is, why must finance, engineering, manufacturing, and other functional areas be involved?
6. What is the major purpose of concept testing, and how is it accomplished?
7. What are the benefits and disadvantages of test marketing?
8. Why can the process of commercialization take a considerable amount of time?
9. What is product differentiation, and how can it be achieved?
10. Explain how the term *quality* has been used to differentiate products in the automobile industry in recent years. What are some makes and models of automobiles that come to mind when you hear the terms *high quality* and *poor quality*?
11. What is product positioning? Under what conditions would head-to-head product positioning be appropriate? When should head-to-head positioning be avoided?
12. What types of problems does a weak product cause in a product mix? Describe the most effective approach for avoiding such problems.
13. How important are services in the U.S. economy?
14. Identify and discuss the major service characteristics.
15. For each marketing mix element, which service characteristics are most likely to have an impact?
16. What type of organization might use a venture team to develop new products? What are the advantages and disadvantages of such a team?

MARKETING APPLICATIONS

1. A company often test markets a proposed product in a specific area or location. Suppose that you wish to test market your new revolutionary SuperWax car wax, which requires only one application for a lifetime finish. Where and how would you test market your new product?
2. Select an organization that you think should reposition itself in the consumer's eye. Identify where it is currently positioned, and make recommendations for repositioning. Explain and defend your suggestions.
3. Identify a familiar product that recently was modified, categorize the modification (quality, functional, or aesthetic), and describe how you would have modified it differently.
4. The characteristics of services affect the development of marketing mixes for services. Choose a specific service and explain how each marketing mix element could be affected by these service characteristics.
5. Identify three service organizations you see in outdoor, television, or magazine advertising. What symbols are used to represent their services? What message do the symbols convey to potential customers?
6. Visit a retail store in your area, and ask the manager what products he or she has had to discontinue in the recent past. Find out what factors influenced the decision to delete the product and who was involved in the decision. Ask the manager

to identify any products that should be but have not been deleted, and try to ascertain the reason.

ONLINE EXERCISE

7. Merck, a leading global pharmaceutical company, develops, manufactures, and markets a broad range of health-care products. In addition, the firm's Merck-Medco Managed Care Division manages pharmacy benefits for more than 40 million Americans. The company has established a website to serve as an educational and informational

resource for Internet users around the world. Visit Merck at <http://www.merck.com>.

- a. What products has Merck developed and introduced recently?
- b. What role does research play in Merck's success? How does research facilitate new-product development at Merck?
- c. Find Merck's mission statement. Is Merck's focus on research consistent with the firm's mission and values?

DEVELOPING YOUR MARKETING PLAN

A company's marketing strategy may be revised to include new products as it considers its SWOT analysis and the impact of environmental factors on its product mix. When developing a marketing plan, the company must decide whether new products are to be added to the product mix, or if existing ones should be modified. The information in this chapter will assist you in the creation of your marketing plan as you consider the following:

1. Identify whether your product will be the modification of an existing one in your product mix, or the development of a new product.
2. If the product is an extension of one in your current product mix, determine the type(s) of modifications that will be performed.

3. Using Figure 11.1 as a guide, discuss how your product idea would move through the stages of new-product development. Examine the idea using the tests and analyses included in the new-product development process.
4. Discuss how the management of this product will fit into your current organizational structure.

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

HARLEY-DAVIDSON: MORE THAN JUST A MOTORCYCLE

Harley-Davidson's customers can spot each other instantly by the iconic black, white, and orange logo on their motorcycles, clothing, and saddlebags. More than a century after the first Harley-Davidson motorcycle hit the road, the company's annual worldwide sales total more than \$4 billion. Harley-Davidson dominates the U.S. motorcycle market, and sales are also strong in Japan and Europe. Its annual output of 200,000 motorcycles covers 35 models in seven product lines (Sportster, Dyna, Softail, VRSC, Touring, Trike, and CVO). An important part of the Harley-Davidson product is customer services. Harley dealerships help differentiate its product with customer training, warranties, guarantees, repairs and accessories. Harley dealerships become social centers for customers to interact and have fun.

Although Harley-Davidson teetered on the brink of bankruptcy in the 1980s, it roared back by limiting production to focus on a consistently high level of quality. Like other automobile and motorcycle manufacturers, the company is facing decreased sales due to the slow economy, but Harley-Davidson hope to revitalize the company with its new products. The new motorcycles combine the brand's image of freedom and individuality with styling, performance, and features that appeal to younger buyers and women buyers. To attract first-time buyers as well as experienced riders trading up to better bikes, Harley-Davidson prices its motorcycles starting at \$6,999 and also offers financing and insurance. Each model's price depends on its specific combination of features and styling.

Buyers can also order limited-edition motorcycles custom built with distinctive paint designs and accessories. Customers see their bikes as a way of expressing their individuality. However, Harley-Davidson selects only a small number of orders annually for custom-built bikes. Not surprisingly, these custom products are in high demand. The product modifications that go into custom bikes are almost like new models of the same brand, but they represent a one-time production run.

To encourage the next generation of biking enthusiasts to learn to drive a motorcycle and then buy the Harley-Davidson bike of their dreams, many of the company's dealers offer the Rider's Edge driving course. Since 2000, when the course was first offered, more than 150,000 people have graduated and earned a motorcycle license. The Rider's Edge also helps experienced riders to hone their driving skills and learn special techniques for riding in groups.

Group riding is such an important part of the overall product experience that the company founded the Harley Owners Group (HOG) to foster a sense of community among its customers. Today, more than 1 million HOG members enjoy benefits such as access to dozens of exclusive group rides, a special customer service hotline, and a members-only website. They also receive two magazines: *Hog Tales*, with articles about members and member events, and *Enthusiast*, with articles about Harley-Davidson's goods and services. In addition, customers can use the Harley-Davidson website to plan travel, book hotels, rent bikes, or ship their bikes for their next riding adventure.

Knowing that customers are passionate about motorcycles and about Harley-Davidson in particular, the company arranges tours at four of its factories in Wisconsin, Pennsylvania, and Missouri. It opened the Harley-Davidson Museum in Milwaukee, Wisconsin, home of its headquarters, with 130,000 square feet of exhibits. Many of the exhibits feature products from Harley-Davidson's past, including a sample of the bikes, boats, golf carts, and snowmobiles the company once manufactured. Museum-goers can get a taste of the Harley experience by climbing onto one of the company's current bikes for a virtual ride through beautiful country scenery projected on a big screen.

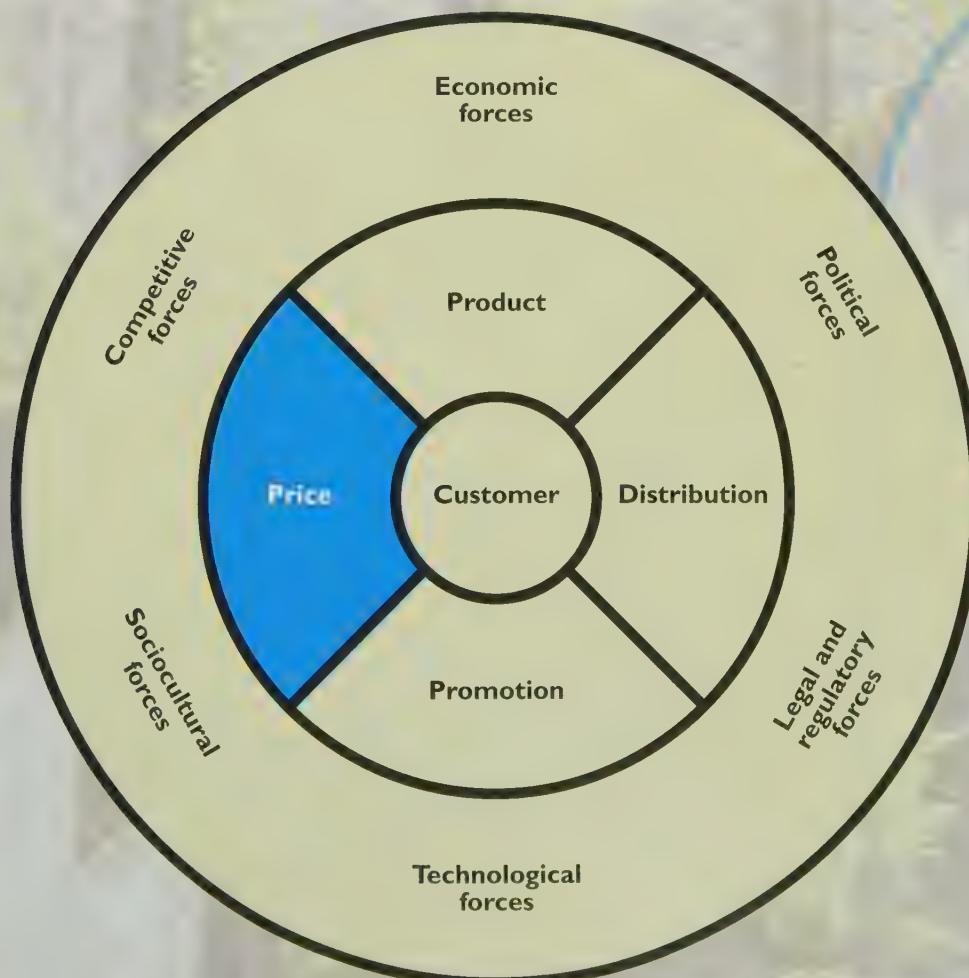
The museum also looks ahead by highlighting Harley-Davidson's latest technology, its newest engines, and the inner workings of its new-product development process. One exhibit shows how a new motorcycle starts life as a sketch, is transformed into a clay model, becomes a testable prototype, and ultimately enters full production. "In creating this museum, we wanted to make sure that it told an evolving story," says the museum director. "We have a rich heritage, but we also have an exciting future."⁴⁴

QUESTIONS FOR DISCUSSION

1. Why would Harley-Davidson put as much emphasis on consistency of quality as it does on level of quality?
2. How does Harley-Davidson use customer services to differentiate its motorcycle products?
3. What role do you think the Harley-Davidson Museum might play in influencing how consumers perceive the company and its products?

PRICING DECISIONS

To provide a satisfying marketing mix, an organization must set a price that is acceptable to target market members. Pricing decisions can have numerous effects on other parts of the marketing mix. For example, price can influence how customers perceive the product, what types of marketing institutions are used to distribute the product, and how the product is promoted. Chapter 12 discusses the importance of price and looks at some characteristics of price and nonprice competition. It explores fundamental concepts such as demand, elasticity, marginal analysis, and break-even analysis. The chapter then examines the major factors that affect marketers' pricing decisions. Chapter 13 discusses six major stages that marketers use to establish prices.



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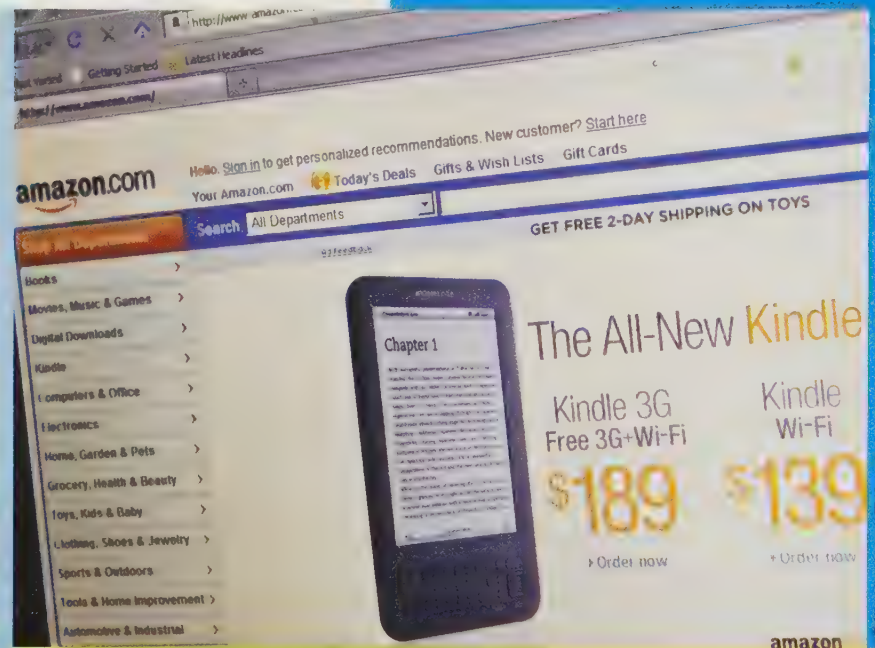
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CHAPTER 12

Pricing Fundamentals

OBJECTIVES:

- 1 Understand the role of price.
- 2 Identify the characteristics of price and nonprice competition.
- 3 Explore demand curves and price elasticity of demand.
- 4 Examine the relationships among demand, costs, and profits.
- 5 Describe key factors that may influence marketers' pricing decisions.
- 6 Consider issues affecting the pricing of products for business markets.



MARKETING INSIGHTS

Amazon Pushes Products with No Inventory or Shipping Costs

Online retail pioneer Amazon.com has built a profitable \$34.2 billion business by paying close attention to pricing details. Founded as a web-based discount bookstore, Amazon has since expanded into dozens of product categories and countries. The company constantly invests in new technology to upgrade its sites, systems, and offerings. Although high-tech costs are a drag on profit margins, they are essential to Amazon's strategy of keeping customers loyal by making shopping easy, fast, and fun.

One hallmark of Amazon's pricing is its long-running offer of free shipping for orders of \$25 or more. Because shoppers know they are saving money, they are more inclined to keep spending even after they reach the \$25 order threshold to qualify for free shipping. Free shipping has helped Amazon build sales over the years, but it has also increased costs and cut into profits.

All-digital products like electronic books, music, movies, and games are lucrative because they entail no inventory or shipping costs, so Amazon is moving aggressively into digital content. For example, it recently purchased LoveFilm, a major movie-on-demand service in Europe. Its Kindle, an e-book reader that allows customers to wirelessly download books, newspapers, and magazines, is also doing well. With increased competition from Barnes & Noble's e-book reader and Apple's iPad, Amazon has lowered the Kindle's price and increased promotional activities to keep up sales momentum. Looking ahead, Amazon will be paying close attention to the pricing of rival gadgets and the way digital content is being priced.¹

Like Amazon, many firms use pricing as a tool to compete against major competitors. However, their rivals also may employ pricing as a major competitive tool. In some industries, firms are very successful even if they don't have the lowest prices. The best price is not always the lowest price.

In this chapter, we focus first on the nature of price and its importance to marketers. We then consider some characteristics of price and nonprice competition. Next, we discuss several pricing-related concepts such as demand, elasticity, and break-even analysis. Then we examine in some detail the numerous factors that can influence pricing decisions. Finally, we discuss selected issues related to pricing products for business markets.

The Nature of Price

The purpose of marketing is to facilitate satisfying exchange relationships between buyer and seller. **Price** is the value paid for a product in a marketing exchange. Many factors may influence the assessment of value, including time constraints, price levels, perceived quality, and motivations to use available information about prices.² In most marketing situations, the price is apparent to both buyer and seller. However, price does not always take the form of money paid. In fact, **barter**, the trading of products, is the oldest form of exchange. Money may or may not be involved. Barter among businesses accounts for about \$12 billion in annual U.S. sales.³ Certain websites help facilitate B2B bartering.

Buyers' interest in price stems from their expectations about the usefulness of a product or the satisfaction they may derive from it. Because consumers have limited resources, they must allocate those resources to obtain the products they most desire. They must decide whether the utility gained in an exchange is worth the buying power sacrificed. Almost anything of value—ideas, services, rights, and goods—can be assessed by a price. In our society, financial price is the measurement of value commonly used in exchanges.

As pointed out in Chapter 11, developing a product may be a lengthy process. It takes time to plan promotion and to communicate benefits. Distribution usually requires a long-term commitment to dealers that will handle the product. Often, price is the only thing a marketer can change quickly to respond to changes in demand or to actions of competitors. Under certain circumstances, however, the price variable may be relatively inflexible.

Price is a key element in the marketing mix because it relates directly to the generation of total revenue. The following equation is an important one for the entire organization:

$$\text{profit} = \text{total revenue} - \text{total costs}$$

$$\text{profit} = (\text{price} \times \text{quantity sold}) - \text{total costs}$$

Price affects an organization's profits in several ways because it is a key component of the profit equation and can be a major determinant of quantities sold. For instance, price is a top priority for Hewlett-Packard in gaining market share and improving financial performance.⁴ Furthermore, total costs are influenced by quantities sold.

Because price has a psychological impact on customers, marketers can use it symbolically. By pricing high, they can emphasize the quality of a product and try to increase the prestige associated with its ownership. By lowering a price, marketers can emphasize a bargain and attract customers who go out of their way to save a small amount of money. Thus, as this chapter details, price can have strong effects on a firm's sales and profitability.

price

The value paid for a product in a marketing exchange

barter

The trading of products

Price and Nonprice Competition

The competitive environment strongly influences the marketing mix decisions associated with a product. Pricing decisions are often made according to the price or nonprice competitive situation in a particular market. Price competition exists when consumers have difficulty distinguishing competitive offerings and marketers emphasize low prices. Nonprice competition involves a focus on marketing mix elements other than price.

PRICE COMPETITION

When engaging in **price competition**, a marketer emphasizes price as an issue and matches or beats competitors' prices. To compete effectively on a price basis, a firm should be the low-cost seller of the product. If all firms producing the same product charge the same price for it, the firm with the lowest costs is the most profitable. Firms that stress low price as a key marketing mix element tend to market standardized products. A seller competing on price may change prices frequently, or at least must be willing and able to do so. For example, when increasing numbers of coffee sellers entered the market, competition increased. Starbucks Corp. needed to counter the widespread perception that it was the home of the \$4 cup of coffee, especially during the economic downturn. In order to compete with McDonald's inexpensive coffee, Starbucks cut its coffee prices and started selling discounted breakfast foods for \$3.95, including coffee.⁵ Whenever competitors change their prices, the company usually responds quickly and aggressively.

Price competition gives marketers flexibility. They can alter prices to account for changes in their costs or respond to changes in demand for the product. If competitors try to gain market share by cutting prices, a company competing on a price basis can react quickly to such efforts. However, a major drawback of price competition is that competitors have the flexibility to adjust prices too. If they quickly match or beat a company's price cuts, a price war may ensue. For instance, Sony recently introduced a less expensive version of its

price competition

Emphasizing price as an issue and matching or beating competitors' prices

Price and Nonprice Competition

Consumer electronics, such as cell phones, are marketed using price competition. Lindt, like most other premium chocolate brands, engages in nonprice competition.



DZimages/Dean Pictures/Newscom



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PlayStation 3, Microsoft reduced the price of its Xbox 360, and Nintendo slashed the price of the Wii. As companies fight for a greater share of the video game industry, consumers continue to see falling prices.⁶ Chronic price wars such as this one can substantially weaken organizations.

NONPRICE COMPETITION

Nonprice competition occurs when a seller decides not to focus on price and instead emphasizes distinctive product features, service, product quality, promotion, packaging, or other factors to distinguish its product from competing brands. Thus, nonprice competition allows a company to increase its brand's unit sales through means other than changing the brand's price. Mars, for example, markets not only Snickers and M&Ms, but also has an upscale candy line called Ethel's Chocolate. With the tagline "eat chocolate, not preservatives," Ethel's Chocolate competes on the basis of taste, attractive appearance, and hip packaging, and thus has little need to engage in price competition.⁷ A major advantage of nonprice competition is that a firm can build customer loyalty toward its brand. If customers prefer a brand because of nonprice factors, they may not be easily lured away by competing firms and brands. In contrast, when price is the primary reason customers buy a particular brand, a competitor is often able to attract those customers through price cuts.

Nonprice competition is effective only under certain conditions. A company must be able to distinguish its brand through unique product features, higher product quality, effective promotion, distinctive packaging, or excellent customer service. Apple is known for producing products that demand a premium price because of the capabilities and service that come with its products. One writer went as far as to say that Linux will not be able to compete with the Apple iPad because it lacks the "magic" that Apple products have. It is difficult to define and therefore imitate Apple's magic; it is a combination of several qualities including the appearance of its products, ease of use, and product integration.⁸ Buyers not only must be able to perceive these distinguishing characteristics but must also view them as important. The distinguishing features that set a particular brand apart from competitors should be difficult, if not impossible, for competitors to imitate. Finally, the firm must extensively promote the brand's distinguishing characteristics to establish its superiority and set it apart from competitors in the minds of buyers.

nonprice competition

Emphasizing factors other than price to distinguish a product from competing brands

Green Marketing



Will Buyers Pay More for Green Products?

Green products are sometimes priced higher than their conventional counterparts, due to special materials, innovative manufacturing processes, or handling procedures that raise marketers' costs. But will buyers pay more for green products? The short answer is: it depends.

Surveys show that a core segment of consumers will pay a little more for green products, especially foods, beverages, and personal-care products. There are limits, however. Walmart recognizes that even a small price premium for green products

can be a barrier. "When you ask [consumers] to pay more for a green product, you're also asking them to cut something else out of their life," says Walmart's chairman.

Meanwhile, competition and economies of scale are lowering the costs of green products. Procter & Gamble, for example, is using promotional pricing to capture market share for its green household products. Over time, marketers will be able to cut prices of green products and attract more buyers as the price premium disappears.⁹

Even a marketer that is competing on a nonprice basis cannot ignore competitors' prices. This organization must be aware of them and sometimes be prepared to price its brand near or slightly above competing brands. Therefore, price remains a crucial marketing mix component even in environments that call for nonprice competition.

Analysis of Demand

Determining the demand for a product is the responsibility of marketing managers, who are aided in this task by marketing researchers and forecasters. Marketing research and forecasting techniques yield estimates of sales potential, or the quantity of a product that could be sold during a specific period. These estimates are helpful in establishing the relationship between a product's price and the quantity demanded.

THE DEMAND CURVE

For most products, the quantity demanded goes up as the price goes down, and the quantity demanded goes down as the price goes up. For example, after Nintendo Wii sales began to drop due to increased competition, the company reduced the price of its console by \$50 in order to increase demand.⁹ Thus, an inverse relationship exists between price and quantity demanded. As long as the marketing environment and buyers' needs, ability (purchasing power), willingness, and authority to buy remain stable, this fundamental inverse relationship holds.

Figure 12.1 illustrates the effect of one variable, price, on the quantity demanded. The classic **demand curve** (D_1) is a graph of the quantity of products expected to be sold at various prices if other factors remain constant. It illustrates that, as price falls, quantity demanded usually rises. Demand depends on other factors in the marketing mix, including product quality, promotion, and distribution. An improvement in any of these factors may cause a shift to, say, demand curve D_2 . In such a case, an increased quantity (Q_2) will be sold at the same price (P).

Many types of demand exist, and not all conform to the classic demand curve shown in Figure 12.1. Prestige products, such as selected perfumes and jewelry, tend to sell better at

demand curve

A graph of the quantity of products expected to be sold at various prices if other factors remain constant

FIGURE 12.1 Demand Curve Illustrating the Price/Quantity Relationship and Increase in Demand

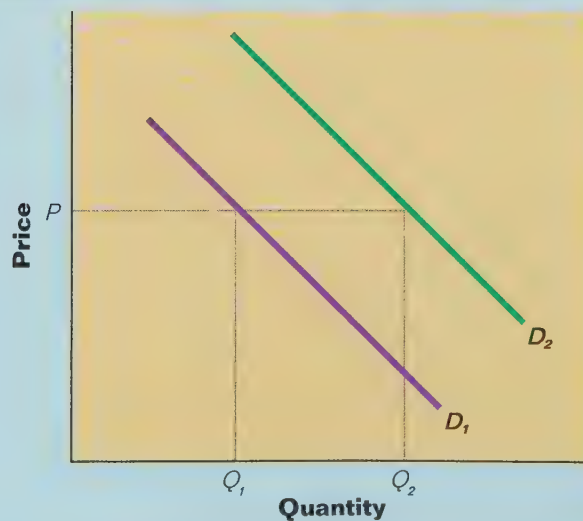
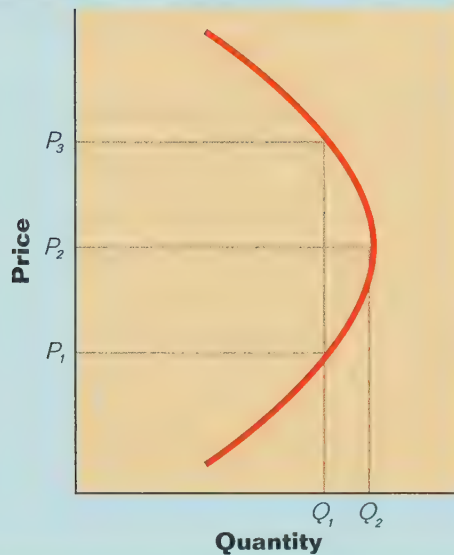


FIGURE 12.2 Demand Curve Illustrating the Relationship between Price and Quantity for Prestige Products



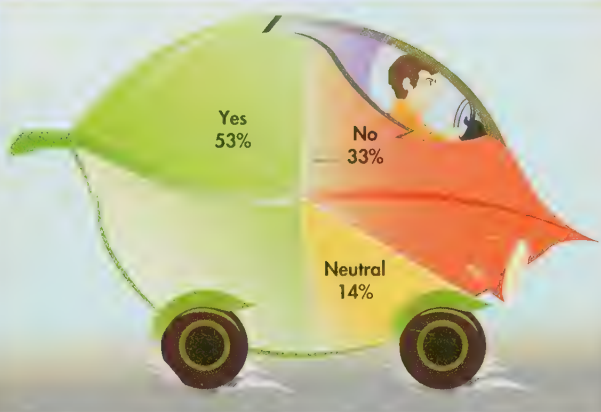
high prices than at low ones. These products are desirable partly because their expense makes buyers feel elite. If the price fell drastically and many people owned these products, they would lose some of their appeal. The demand curve in Figure 12.2 shows the relationship between price and quantity demanded for prestige products. Quantity demanded is greater, not less, at higher prices. For a certain price range—from P_1 to P_2 —the quantity demanded (Q_1) goes up to Q_2 . After a certain point, however, raising the price backfires: if the price goes too high, the quantity demanded goes down. The figure shows that if price is raised from P_2 to P_3 , quantity demanded goes back down from Q_2 to Q_1 .



Prestige Product

Upscale, exclusive brands of perfume are characterized as having prestige demand.

Will 18- to 30-Year-Olds Pay a Premium for an Eco-Friendly Vehicle?



Source: Deloitte LLP and Michigan State University survey of 1,100 millennial generation consumers

DEMAND FLUCTUATIONS

Changes in buyers' needs, variations in the effectiveness of other marketing mix variables, the presence of substitutes, and dynamic environmental factors can influence demand. Restaurants and utility companies experience large fluctuations in demand daily. Toy manufacturers, fireworks suppliers, and air-conditioning and heating contractors also face demand fluctuations because of the seasonal nature of their products. The demand for broadband services, beef, and flat-screen TVs has changed over the past few years. In some cases, demand fluctuations are predictable. It is no surprise to restaurants and utility company managers that demand fluctuates. However, changes in demand for other products may be less predictable, leading to problems for some companies.

Other organizations anticipate demand fluctuations and develop new products and prices to meet consumers' changing needs.

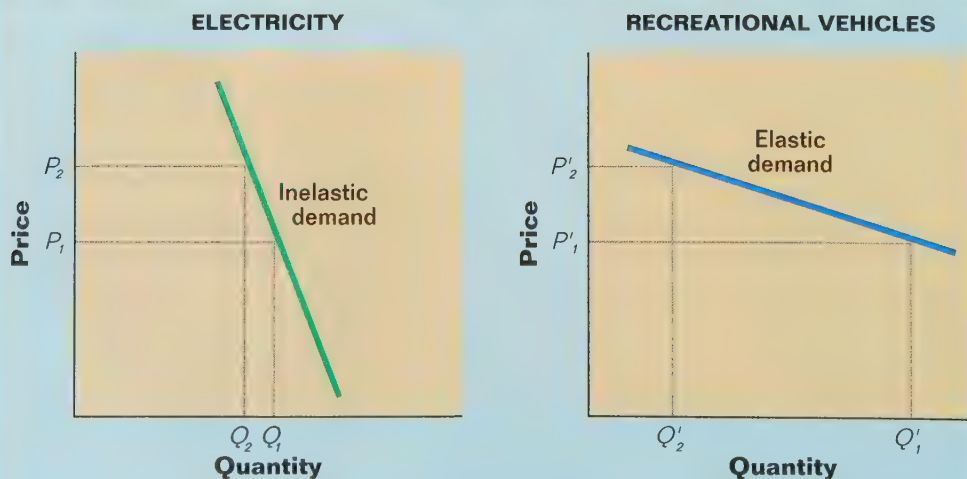
ASSESSING PRICE ELASTICITY OF DEMAND

Up to this point, we have seen how marketers identify the target market's evaluation of price and its ability to purchase and how they examine demand to learn whether price is related inversely or directly to quantity. The next step is to assess price elasticity of demand. **Price elasticity of demand** provides a measure of the sensitivity of demand to changes in price. It is formally defined as the percentage change in quantity demanded relative to a given percentage change in price (see Figure 12.3).¹⁰ The percentage change in quantity demanded caused by a percentage change in price is much greater for elastic demand than for inelastic demand. For a product like electricity, demand is relatively inelastic: when its price increases, say, from P_1 to P_2 , quantity demanded goes down only a little, from Q_1 to Q_2 . For products like recreational vehicles, demand is relatively elastic: when price rises sharply, from P_1 to P_2 , quantity demanded goes down a great deal, from Q_1 to Q_2 .

price elasticity of demand

A measure of the sensitivity of demand to changes in price

FIGURE 12.3 Elasticity of Demand



If marketers can determine the price elasticity of demand, setting a price is much easier. By analyzing total revenues as prices change, marketers can determine whether a product is price elastic. Total revenue is price times quantity; thus, 10,000 rolls of wallpaper sold in one year at a price of \$10 per roll equals \$100,000 of total revenue. If demand is *elastic*, a change in price causes an opposite change in total revenue: an increase in price will decrease total revenue, and a decrease in price will increase total revenue. *Inelastic* demand results in a change in the same direction as total revenue: an increase in price will increase total revenue, and a decrease in price will decrease total revenue. Demand for gasoline, for example, is relatively inelastic—even when prices are close to \$4 per gallon—because people must still drive to work, run errands, shop, and engage in other behaviors that require fuel for their vehicles. Although higher gasoline prices force more consumers to change some behaviors in an effort to reduce the amount of gasoline they use, most cut spending in other areas instead because they require a certain level of fuel for weekly activities like commuting. The following formula determines the price elasticity of demand:

$$\text{price elasticity of demand} = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

For instance, if demand falls by 8 percent when a seller raises the price by 2 percent, the price elasticity of demand is -4 (the negative sign indicating the inverse relationship between price and demand). If demand falls by 2 percent when price is increased by 4 percent, elasticity is $-1/2$. The less elastic the demand, the more beneficial it is for the seller to raise the price. Products without readily available substitutes and for which consumers have strong needs (e.g., electricity or appendectomies) usually have inelastic demand. Marketers cannot base prices solely on elasticity considerations. They must also examine the costs associated with different sales volumes and evaluate what happens to profits.



Elasticity of Demand

The demand for electricity is inelastic.

Demand, Cost, and Profit Relationships

The analysis of demand, cost, and profit is important because customers are becoming less tolerant of price increases, forcing manufacturers to find new ways to control costs. In the past, many customers desired premium brands and were willing to pay extra for those products. Today, customers pass up certain brand names if they can pay less without sacrificing quality. To stay in business, a company must set prices that not only cover its costs but also meet customers' expectations. In this section, we explore two approaches to understanding demand, cost, and profit relationships: marginal analysis and break-even analysis.

MARGINAL ANALYSIS

Marginal analysis examines what happens to a firm's costs and revenues when production (or sales volume) changes by one unit. Both production costs and revenues must be evaluated. To determine the costs of production, it is necessary to distinguish among several types of costs. **Fixed costs** do not vary with changes in the number of units produced or sold. For example,

fixed costs

Costs that do not vary with changes in the number of units produced or sold

average fixed cost

The fixed cost per unit produced

variable costs

Costs that vary directly with changes in the number of units produced or sold

average variable cost

The variable cost per unit produced

total cost

The sum of average fixed and average variable costs times the quantity produced

average total cost

The sum of the average fixed cost and the average variable cost

a wallpaper manufacturer's cost of renting a factory does not change because production increases from one to two shifts a day or because twice as much wallpaper is sold. Rent may go up, but not because the factory has doubled production or revenue. **Average fixed cost** is the fixed cost per unit produced and is calculated by dividing fixed costs by the number of units produced.

Variable costs vary directly with changes in the number of units produced or sold. The wages for a second shift and the cost of twice as much wallpaper are extra costs incurred when production is doubled. Variable costs are usually constant per unit; that is, twice as many workers and twice as much material produce twice as many rolls of wallpaper. **Average variable cost**, the variable cost per unit produced, is calculated by dividing the variable costs by the number of units produced.

Total cost is the sum of average fixed costs and average variable costs times the quantity produced. The **average total cost** is the sum of the average fixed cost and the average variable cost. **Marginal cost (MC)** is the extra cost a firm incurs when it produces one more unit of a product.

Table 12.1 illustrates various costs and their relationships. Notice that average fixed cost declines as output increases. Average variable cost follows a U shape, as does average total cost. Because average total cost continues to fall after average variable cost begins to rise, its lowest point is at a higher level of output than that of average variable cost. Average total cost is lowest at five units at a cost of \$22.00, whereas average variable cost is lowest at three units at a cost of \$10.67. As Figure 12.4 shows, marginal cost equals average total cost at the latter's lowest level. In Table 12.1, this occurs between five and six units of production. Average

TABLE 12.1 Costs and Their Relationships

1 Quantity	2 Fixed Cost	3 Average Fixed Cost (2) ÷ (1)	4 Average Variable Cost	5 Average Total Cost (3) + (4)	6 Total Cost (5) × (1)	Marginal Cost
1	\$40	\$40.00	\$20.00	\$60.00	\$60	
						→ \$10
2	40	20.00	15.00	35.00	70	
						→ 2
3	40	13.33	10.67	24.00	72	
						→ 18
4	40	10.00	12.50	22.50	90	
						→ 20
5	40	8.00	14.00	22.00	110	
						→ 30
6	40	6.67	16.67	23.33	140	
						→ 40
7	40	5.71	20.00	25.71	180	

FIGURE 12.4 Typical Marginal Cost and Average Total Cost Relationship



total cost decreases as long as marginal cost is less than average total cost and increases when marginal cost rises above average total cost.

Marginal revenue (MR) is the change in total revenue that occurs when a firm sells an additional unit of a product. Figure 12.5 depicts marginal revenue and a demand curve. Most firms in the United States face downward-sloping demand curves for their products; in other words, they must lower their prices to sell additional units. This situation means that each additional unit of product sold provides the firm with less revenue than the previous unit sold. MR then becomes less-than-average revenue, as Figure 12.5 shows. Eventually, MR reaches zero, and the sale of additional units actually hurts the firm.

However, before the firm can determine whether a unit makes a profit, it must know its cost, as well as its revenue, because profit equals revenue minus cost. If MR is a unit's addition to revenue and MC is a unit's addition to cost, MR minus MC tells us whether the unit is profitable. Table 12.2 illustrates the relationships among price, quantity sold, total revenue, marginal revenue, marginal cost, and total cost. It indicates where maximum profits are possible at various combinations of price and cost. Notice that the total cost and the marginal cost figures in Table 12.2 are calculated and appear in Table 12.1.

marginal cost (MC)

The extra cost incurred by producing one more unit of a product

marginal revenue (MR)

The change in total revenue resulting from the sale of an additional unit of a product

FIGURE 12.5 Typical Marginal Revenue and Average Revenue Relationship

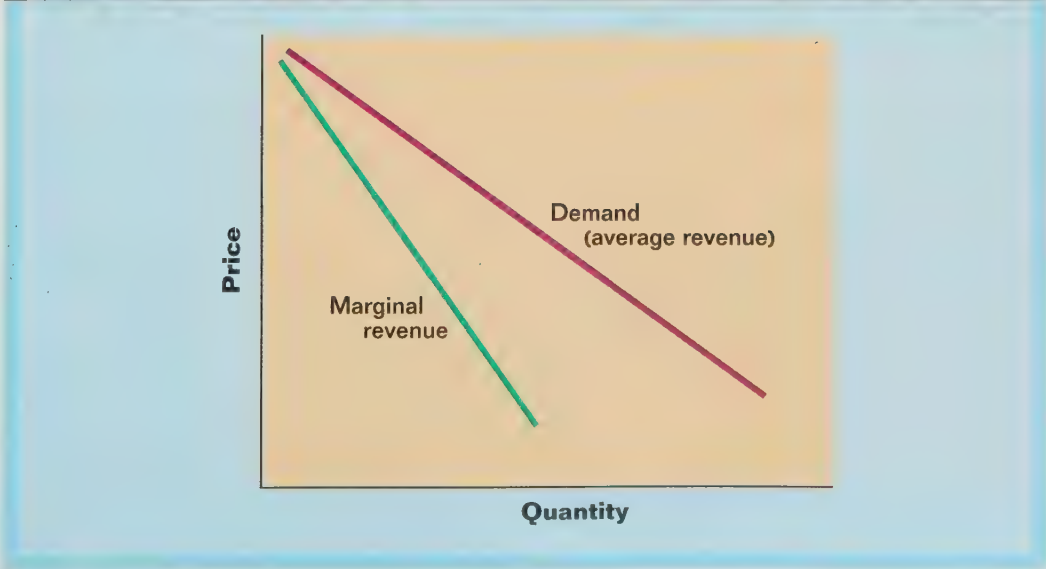


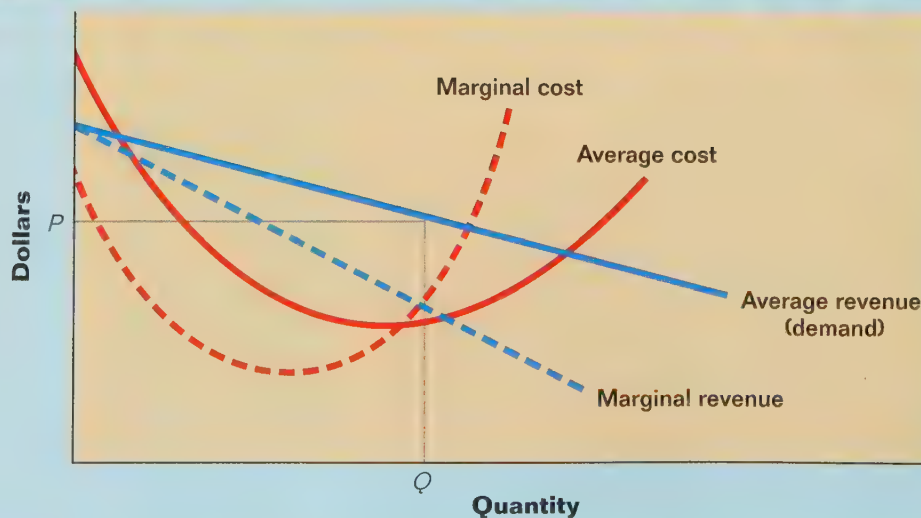
TABLE 12.2 Marginal Analysis Method for Determining the Most Profitable Price

1 Price	2 Quantity Sold	3 Total Revenue (1) × (2)	4 Marginal Revenue	5 Marginal Cost	6 Total Cost	7 Profit (3) – (6)
\$57	1	\$57	\$57	\$60	\$60	\$-3
50	2	100	43	10	70	30
38	3	114	14	2	72	42
33*	4	132	18	18	90	42
30	5	150	18	20	110	40
27	6	162	12	30	140	22
25	7	175	13	40	180	-5

*Boldface indicates the best price–profit combination

Profit is the highest where $MC = MR$. In Table 12.2, note that at a quantity of four units, profit is the highest and $MR - MC = 0$. The best price is \$33, and the profit is \$42. Up to this point, the additional revenue generated from an extra unit sold exceeds the additional cost of producing it. Beyond this point, the additional cost of producing another unit exceeds the additional revenue generated, and profits decrease. If the price were based on minimum average total cost—\$22 (Table 12.1)—it would result in a lower profit of \$40 (Table 12.2) for five units priced at \$30 versus a profit of \$42 for four units priced at \$33.

Graphically combining Figures 12.4 and 12.5 into Figure 12.6 shows that any unit for which MR exceeds MC adds to a firm's profits, and any unit for which MC exceeds MR

FIGURE 12.6 Combining the Marginal Cost and Marginal Revenue Concepts for Optimal Profit

subtracts from profits. The firm should produce at the point where MR equals MC, because this is the most profitable level of production.

This discussion of marginal analysis may give the false impression that pricing can be highly precise. If revenue (demand) and cost (supply) remained constant, prices could be set for maximum profits. In practice, however, cost and revenue change frequently. The competitive tactics of other firms or government action can quickly undermine a company's expectations of revenue. Thus, marginal analysis is only a model from which to work. It offers little help in pricing new products before costs and revenues are established. On the other hand, in setting prices of existing products, especially in competitive situations, most marketers can benefit by understanding the relationship between marginal cost and marginal revenue.

BREAK-EVEN ANALYSIS

The point at which the costs of producing a product equal the revenue made from selling the product is the **break-even point**. If a wallpaper manufacturer has total annual costs of \$100,000 and sells \$100,000 worth of wallpaper in the same year, the company has broken even.

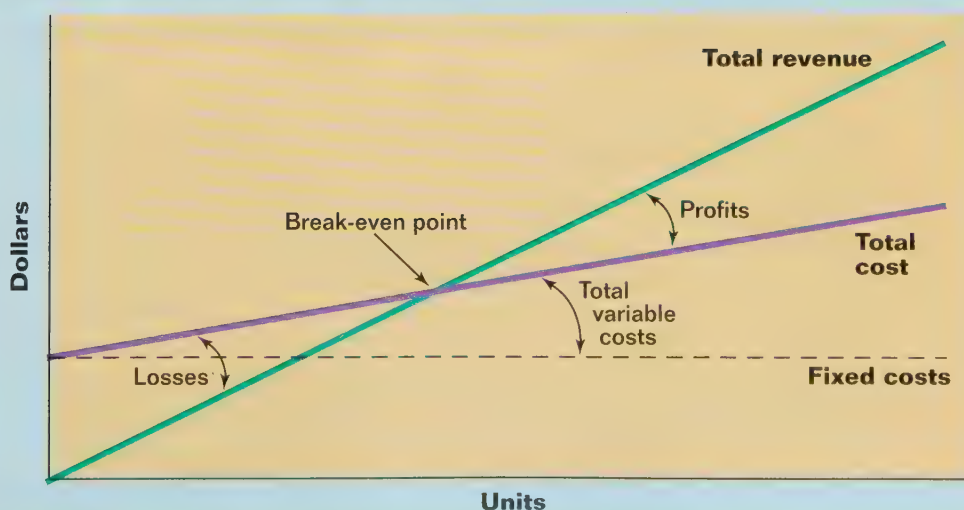
Figure 12.7 illustrates the relationships among costs, revenue, profits, and losses involved in determining the break-even point. Knowing the number of units necessary to break even is important in setting the price. If a product priced at \$100 per unit has an average variable cost of \$60 per unit, the contribution to fixed costs is \$40. If total fixed costs are \$120,000, the break-even point in units is determined as follows:

$$\begin{aligned}\text{break-even point} &= \frac{\text{fixed costs}}{\text{per-unit contribution to fixed costs}} \\ &= \frac{\text{fixed costs}}{\text{price-variable costs}} \\ &= \frac{\$120,000}{\$40} \\ &= 3,000 \text{ units}\end{aligned}$$

break-even point

The point at which the costs of producing a product equal the revenue made from selling the product

FIGURE 12.7 Determining the Break-Even Point





© David Hancock/Alamy

Break-Even Analysis

Many airlines do not break even.

To calculate the break-even point in terms of dollar sales volume, the seller multiplies the break-even point in units by the price per unit. In the preceding example, the break-even point in terms of dollar sales volume is 3,000 (units) times \$100, or \$300,000.

To use break-even analysis effectively, a marketer should determine the break-even point for each of several alternative prices. This determination allows the marketer to compare the effects on total revenue, total costs, and the break-even point for each price under consideration. Although this comparative analysis may not tell the marketer exactly what price to charge, it will identify highly undesirable price alternatives that should definitely be avoided.

Break-even analysis is simple and straightforward. It does assume, however, that the quantity demanded is basically fixed (inelastic) and that the major task in setting prices is to recover costs. It focuses more on how to break even than on how to achieve a pricing objective, such as percentage of market share or return on investment. Nonetheless, marketing managers can use this concept to determine whether a product will achieve at least a break-even volume.

Factors That Affect Pricing Decisions

Pricing decisions can be complex because of the number of factors to consider. Frequently, there is considerable

uncertainty about the reactions to price among buyers, channel members, and competitors. Price is also an important consideration in marketing planning, market analysis, and sales forecasting. It is a major issue when assessing a brand's position relative to competing brands. Most factors that affect pricing decisions can be grouped into one of the eight categories shown in Figure 12.8. In this section, we explore how each of these groups of factors enters into price decision making.

ORGANIZATIONAL AND MARKETING OBJECTIVES

Marketers should set prices that are consistent with the organization's goals and mission. For example, a retailer trying to position itself as value-oriented may wish to set prices that are quite reasonable relative to product quality. In this case, a marketer would not want to set premium prices on products but would strive to price products in line with this overall organizational goal.

Pricing decisions should also be compatible with the firm's marketing objectives. For instance, suppose one of a producer's marketing objectives is a 12 percent increase in unit sales by the end of the following year. Assuming buyers are price-sensitive, increasing the price or setting a price above the average market price would not be in line with this objective.

FIGURE 12.8 Factors That Affect Pricing Decisions

TYPES OF PRICING OBJECTIVES

The types of pricing objectives a marketer uses obviously have considerable bearing on the determination of prices. For instance, an organization that uses pricing to increase its market share would likely set the brand's price below those of competing brands of similar quality to attract competitors' customers. A marketer sometimes uses temporary price reductions in the hope of gaining market share. If a business needs to raise cash quickly, it will likely use temporary price reductions, such as sales, rebates, and special discounts. We examine pricing objectives in more detail in the next chapter.

COSTS

Clearly, costs must be an issue when establishing price. A firm may temporarily sell products below cost to match competition, generate cash flow, or even increase market share, but in the long run, it cannot survive by selling its products below cost. Even a firm that has a high-volume business cannot survive if each item is sold slightly below its cost. A marketer should be careful to analyze all costs so they can be included in the total cost associated with a product.

To maintain market share and revenue in an increasingly price-sensitive market, many marketers have concentrated on reducing costs. Sony, for example, was able to remain in business during the recession by eliminating more than 20,000 jobs, closing 20 percent of its plants, and redesigning its supply chain to cut costs by more than \$3 billion. The company also reduced the production costs of its televisions, digital cameras, and video game consoles.¹¹

Labor-saving technologies, a focus on quality, and efficient manufacturing processes have brought productivity gains that translate into reduced costs and lower prices for customers. In an industry ravaged by labor concerns and monetary losses, Southwest Airlines has managed to stay one step ahead of its larger rivals. Southwest is the low-fare leader on more of the top 100 routes in the United States than the three largest airlines—American, Delta, and United. One reason for the Texas-based airline's success

Emerging Trends in Marketing



Making Freemium Pay Off

For companies that market online offerings, one of the hottest trends in pricing is *freemium*. The idea is to let customers download or access stripped-down, sample, or limited versions of an online product for free. Then, customers who want or need more can pay to upgrade to full-featured versions.

Some companies that rely on freemium pricing generate part of their revenue from the sale of advertising. The more visitors they can attract with their free basic offer, the more money

they can charge advertisers for posting messages to reach that audience. Evernote, a company that makes downloadable software for collecting, storing, and searching “notes” on computers, smartphones, or the Web, has more than 3 million freemium users. That’s a sizable audience for advertisers. Yet much of Evernote’s \$45 million in annual revenue comes from the thousands of customers who pay \$5 per month for more storage space, additional security features, and no advertising. Can freemium pricing lead to long-term profits?^b

is its ability to control costs. Southwest’s per-seat mile costs are somewhat lower than those of its “big three” rivals. However, Southwest now faces competition from other low-cost airlines like JetBlue.

Besides considering the costs associated with a particular product, marketers must take into account the costs the product shares with others in the product line. Products often share some costs, particularly the costs of research and development, production, and distribution. Most marketers view a product’s cost as a minimum, or floor, below which the product cannot be priced.

OTHER MARKETING MIX VARIABLES

All marketing mix variables are highly interrelated. Pricing decisions can influence evaluations and activities associated with product, distribution, and promotion variables. A product’s price frequently affects the demand for that item. A high price, for instance, may result in low unit sales, which in turn may lead to higher production costs per unit. Conversely, lower per-unit production costs may result from a low price. For many products, buyers associate better product quality with a high price and poorer product quality with a low price. This perceived price–quality relationship influences customers’ overall image of products or brands. For example, some individuals view Apple computers as higher quality than other brands’ computers and are willing to pay a higher price. Individuals who associate quality with a high price are likely to purchase products with well-established and recognizable brand names.¹²

The price of a product is linked to several dimensions of its distribution. Premium-priced products—Bentley or Rolls-Royce automobiles, for example—are often marketed through selective or exclusive distribution; lower-priced products in the same product category may be sold through intensive distribution. For instance, Cross pens are distributed through selective distribution and Bic pens through intensive distribution. Moreover, an increase in physical distribution costs, such as shipping, may have to be passed on to customers. When fuel prices increase significantly, some distribution companies pass on these additional costs through surcharges or higher prices. When setting a price, the profit margins of marketing channel members, such as wholesalers and retailers, must also be considered. Channel members must be adequately compensated for the functions they perform.

Price may determine how a product is promoted. Bargain prices are often included in advertisements. Premium prices are less likely to be advertised, though they are sometimes included in advertisements for upscale items like luxury cars or fine jewelry. Higher-priced products are more likely than lower-priced ones to require personal selling. Furthermore, the price structure can affect a salesperson's relationship with customers. A complex pricing structure takes longer to explain to customers, is more likely to confuse potential buyers, and may cause misunderstandings that result in long-term customer dissatisfaction. For example, the pricing structures of many airlines are complex and frequently confuse ticket sales agents and travelers alike.

CHANNEL MEMBER EXPECTATIONS

When making price decisions, a producer must consider what members of the distribution channel expect. A channel member certainly expects to receive a profit for the functions it performs. The amount of profit expected depends on what the intermediary could make if it were handling a competing product instead. Also, the amount of time and the resources required to carry the product influence intermediaries' expectations.

Channel members often expect producers to give discounts for large orders and prompt payment. At times, resellers expect producers to provide several support activities, such as sales training, service training, repair advisory service, cooperative advertising, sales promotions, and perhaps a program for returning unsold merchandise to the producer. These support activities clearly have associated costs that a producer must consider when determining prices.

CUSTOMERS' INTERPRETATION AND RESPONSE

When making pricing decisions, marketers should address a vital question: How will our customers interpret our prices and respond to them? *Interpretation* in this context refers to what the price means or what it communicates to customers. Does the price mean "high quality" or "low quality," or "great deal," "fair price," or "rip-off"? Customer *response* refers to whether the price will move customers closer to purchase of the product and the degree to which the price enhances their satisfaction with the purchase experience and with the product after purchase.

Customers' interpretation of and response to a price are to some degree determined by their assessment of value, or what they receive compared with what they give up to make the purchase. In evaluating what they receive, customers consider product attributes, benefits, advantages, disadvantages, the probability of using the product, and possibly the status associated with the product. In assessing the cost of the product, customers likely will consider its price, the amount of time and effort required to obtain it, and perhaps the resources required to maintain it after purchase.



Customer Interpretation and Response

Over the past few years, a number of airlines have imposed additional charges for baggage, food, fuel, and video. Many travelers have interpreted these add-on charges as excessive and unfair.

At times, customers interpret a higher price as higher product quality. They are especially likely to make this price–quality association when they cannot judge the quality of the product themselves. This is not always the case, however; whether price is equated with quality depends on the types of customers and products involved. Obviously marketers that rely on customers making a price–quality association and that provide moderate- or low-quality products at high prices will be unable to build long-term customer relationships.

When interpreting and responding to prices, how do customers determine if the price is too high, too low, or about right? In general, they compare prices with internal or external reference prices. An **internal reference price** is a price developed in the buyer's mind through experience with the product. It reflects a belief that a product should cost approximately a certain amount. To arrive at an internal reference price, consumers may consider one or more values, including what they think the product “ought” to cost, the price usually charged for it, the last price they paid, the highest and lowest amounts they would be willing to pay, the price of the brand they usually buy, the average price of similar products, the expected future price, and the typical discounted price.¹³ Research has found that less-confident consumers tend to have higher internal reference prices than consumers with greater confidence, and frequent buyers—perhaps because of their experience and confidence—are more likely to judge high prices unfairly.¹⁴ As consumers,

our experiences have given each of us internal reference prices for a number of products. For instance, most of us have a reasonable idea of how much to pay for a six-pack of soft drinks, a loaf of bread, or a cup of coffee.

For the product categories with which we have less experience, we rely more heavily on external reference prices. An **external reference price** is a comparison price provided by others, such as retailers or manufacturers. Some grocery and electronics stores, for example, will show other stores' prices next to their price of a particular good if their price is lower than the competitor's. This provides a reference point for consumers unfamiliar with the product category. Customers' perceptions of prices are also influenced by their expectations about future price increases, what they paid for the product recently, and what they would like to pay for the product. Other factors affecting customers' perceptions of whether the price is right include time or financial constraints, the costs associated with searching for lower-priced products, and expectations that products will go on sale.

Buyers' perceptions of a product relative to competing products may allow the firm to set a price that differs significantly from rivals' prices. If the product is deemed superior to most of the competition, a premium price may be feasible. However, even products with superior quality can be overpriced. Strong brand loyalty sometimes provides the opportunity to charge a premium price. On the other hand, if buyers view a product less than favorably (though not extremely negatively), a lower price may generate sales.

internal reference price

A price developed in the buyer's mind through experience with the product

external reference price

A comparison price provided by others

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External Reference Price

Advertisements, like this one, provide information that customers use to establish or change their reference prices.

In the context of price, buyers can be characterized according to their degree of value consciousness, price consciousness, and prestige sensitivity. Marketers that understand these characteristics are better able to set pricing objectives and policies. **Value-conscious** consumers are concerned about both price and quality of a product.¹⁵ During recessions, customers become more value and price conscious and tend to limit discretionary spending. Lululemon Athletica, a yoga apparel and accessories retailer, realized this when the company was facing drastic declines in sales during the recent economic slump. Because customers were cutting back on their personal trainers, Lululemon began offering more free yoga classes. By focusing on value, the company increased net revenue by 17 percent the first three quarters of that year.¹⁶ These value-conscious consumers may perceive value as quality per unit of price or as not only economic savings but also the additional gains expected from one product over a competitor's brand. The first view is appropriate for commodities such as bottled water, bananas, and gasoline. If a value-conscious consumer perceives the quality of gasoline to be the same for Exxon and Shell, he or she will go to the station with the lower price. For consumers looking not just for economic value but additional gains they expect from one brand over another, a product differentiation value could be associated with benefits and features that are believed to be unique.¹⁷ For example, a BMW may be considered to be better than a Cadillac.

Price-conscious individuals strive to pay low prices. They want the lowest prices and would respond to Walmart's claim that "we sell for less." To further capitalize on this, Walmart emphasizes the amount of money its customers can save and added 80 new products that carry the Great Value brand.¹⁸

Prestige-sensitive buyers focus on purchasing products that signify prominence and status. For instance, Coty Inc., a major producer of fragrances and beauty products for prestige-sensitive buyers, recently partnered with the Home Shopping Network (HSN) to offer select Coty products. One such product is the Lancaster 365 Cellular Elixir, an advanced anti-aging product from Coty Prestige's Lancaster brand, which costs \$95 for a 1.7-fluid ounce bottle.¹⁹

Some consumers vary in their degree of value, price, and prestige consciousness. In some market segments, consumers "trade up" to higher-status products in categories such as automobiles, home appliances, restaurants, and even pet food, yet remain price conscious regarding cleaning and grocery products. This trend has benefited marketers like Starbucks, Sub-Zero, BMW, Whole Foods, and PETCO, which can charge premium prices for high-quality, prestige products.

COMPETITION

A marketer needs to know competitors' prices so it can adjust its own prices accordingly. This does not mean a company will necessarily match competitors' prices; it may set its price above or below theirs. However, for some organizations (such as airlines), matching competitors' prices is an important strategy for survival.



Entrepreneurship in Marketing

Pay-What-You-Wish Pricing at Panera Cares

How many restaurant chains would even consider putting up a pay-what-you-wish menu? Ron Chaich, the chairman of Panera Bread, has done just that with the company's nonprofit Panera Cares community cafés.

The idea grew out of Chaich's concern for feeding homeless and poor people. Realizing that his company was in a unique position to help, he spearheaded the opening of the first Panera Cares café in Clayton, Missouri. Additional units are now open in Dearborn, Michigan, and Portland, Oregon.

Although the menu shows suggested prices, and signs remind customers that Panera Cares runs on the honor system, cashiers will accept whatever customers choose to pay. So far, about 60 percent of the customers pay the suggested price, 20 percent pay more, and 20 percent pay less. Chaich hopes to expand the café concept to other cities soon. "It's not about starting a business," he explains. "It's about solving problems. That's what being an entrepreneur is."^c

value conscious

Concerned about price and quality of a product

price conscious

Striving to pay low prices

prestige sensitive

Drawn to products that signify prominence and status

When adjusting prices, a marketer must assess how competitors will respond. Will competitors change their prices and, if so, will they raise or lower them? In Chapter 3, we described several types of competitive market structures. The structure that characterizes the industry to which a firm belongs affects the flexibility of price setting. For example, because of reduced pricing regulation, firms in the telecommunications industry have moved from a monopolistic market structure to an oligopolistic one, which has resulted in significant price competition.

When an organization operates as a monopoly and is unregulated, it can set whatever prices the market will bear. However, the company may not price the product at the highest-possible level to avoid government regulation or penetrate a market by using a lower price. If the monopoly is regulated, it normally has less pricing flexibility; the regulatory body lets it set prices that generate a reasonable but not excessive return. A government-owned monopoly may price products below cost to make them accessible to people who otherwise could not afford them. Transit systems, for example, sometimes operate this way. However, government-owned monopolies sometimes charge higher prices to control demand. In some states with state-owned liquor stores, the price of liquor is higher than in states where liquor stores are not owned by a government body.

The automotive and airline industries exemplify oligopolies, in which only a few sellers operate and barriers to competitive entry are high. Companies in such industries can raise their prices in the hope that competitors will do the same. When an organization cuts its price to gain a competitive edge, other companies are likely to follow suit. Thus, very little advantage is gained through price cuts in an oligopolistic market structure.

A market structure characterized by monopolistic competition has numerous sellers with product offerings that are differentiated by physical characteristics, features, quality, and brand images. The distinguishing characteristics of its product may allow a company to set a different price than its competitors. However, firms in a monopolistic competitive market structure are likely to practice nonprice competition, discussed earlier in this chapter.

Under conditions of perfect competition, many sellers exist. Buyers view all sellers' products as the same. All firms sell their products at the going market price, and buyers will not pay more than that. This type of market structure, then, gives a marketer no

Impact of Market Structure

The camera industry is an example of an oligopoly.



flexibility in setting prices. Farming, as an industry, has some characteristics of perfect competition. Farmers sell their products at the going market price. At times, for example, corn, soybean, and wheat growers have had bumper crops and been forced to sell them at depressed market prices.

LEGAL AND REGULATORY ISSUES

Legal and regulatory issues influence pricing decisions. To curb inflation, the federal government can invoke price controls, freeze prices at certain levels, or determine the rates at which firms may increase prices. In some states and many other countries, regulatory agencies set prices on such products as insurance, dairy products, and liquor.

Many regulations and laws affect pricing decisions and activities in the United States. The Sherman Antitrust Act prohibits conspiracies to control prices, and in interpreting the act, courts have ruled that price fixing among firms in an industry is illegal. Marketers must refrain from fixing prices by developing independent pricing policies and setting prices in ways that do not even hint at collusion. Recently, the Justice Department began issuing fines to several airlines after an investigation uncovered a price-fixing scheme in which many airlines were inflating passenger and cargo fuel surcharges to make up for lower profits during the economic recession. The case, which involves mostly international carriers, has resulted in more than \$1.7 billion in fines to 21 airlines.²⁰ Both the Federal Trade Commission Act and the Wheeler-Lea Act prohibit deceptive pricing. Some other nations and trade agreements have similar prohibitions. The European Commission, for example, is investigating allegations of anticompetitive activity in the e-book publishing industry and recently started performing unannounced inspections of several e-book publishing companies to get a better idea of their pricing strategies.²¹ In establishing prices, marketers must guard against deceiving customers.

The Robinson-Patman Act has had a particularly strong impact on pricing decisions. For various reasons, marketers may wish to sell the same type of product at different prices. Provisions in the Robinson-Patman Act, as well as those in the Clayton Act, limit the use of such price differentials. **Price discrimination**, the practice of employing price differentials that tend to injure competition by giving one or more buyers a competitive advantage over other buyers, is prohibited by law. Currently, the biggest U.S. oil company, ExxonMobil Corp., is facing a lawsuit from some of its operators in New Jersey. Exxon apparently divides stations into zones and charges different rates to each zone for gasoline as well as delivers gasoline on a schedule that saves Exxon money while costing the operator more. Operators cite the Robinson-Patman Act as one of the laws violated by their supplier.²² However, not all price differentials are discriminatory. A marketer can use price differentials if they do not hinder competition, result from differences in the costs of selling or transportation to various customers, or arise because the firm has had to cut its price to a particular buyer to meet competitors' prices. Airlines, for example, may charge different customers different prices for the same flights based on the availability of seats at the time of purchase. As a result, flyers sitting in adjacent seats may have paid vastly different fares because one passenger booked weeks ahead, whereas the other booked on the spur of the moment a few days before when only a few seats were still available.



Marketing Debate

Pushing for Pricing Transparency

ISSUE: *Should airlines be forced to disclose the entire price of airfares on their websites?*

Many travel websites attract online buyers with what look like bargain airfares. However, when customers actually click to buy, they often discover hidden fees and taxes that drive the final price much higher. Checking luggage or ordering a meal, for example, can add to the cost of the ticket.

Fees are a lucrative revenue source for airlines, which have seen profits squeezed by competition and shifting fuel costs. The issue here is not the fees themselves but when and how the total price of a ticket is displayed online.

Now travel agents, industry associations, and corporate travel departments are pushing for more transparency in the way ticket prices—fees, taxes, and all—are disclosed. Hundreds have joined a group called Open Allies for Airfare Transparency, which is urging the U.S. Department of Transportation to mandate disclosure of extra charges early in the buying process so customers can compare airfares and make informed decisions.^d

price discrimination

Employing price differentials that injure competition by giving one or more buyers a competitive advantage

Pricing for Business Markets

trade (functional) discount

A reduction off the list price a producer gives to an intermediary for performing certain functions

quantity discounts

Deductions from the list price for purchasing in large quantities

cumulative discounts

Quantity discounts aggregated over a stated time period

noncumulative discounts

One-time price reductions based on the number of units purchased, the dollar value of the order, or the product mix purchased

Business markets consist of individuals and organizations that purchase products for resale, use those products in their own operations, or produce other products. Establishing prices for this category of buyers sometimes differs from setting prices for consumers. Differences in the size of purchases, geographic factors, and transportation considerations require sellers to adjust prices. In this section, we discuss several issues unique to the pricing of business products, including discounts, geographic pricing, and transfer pricing.

PRICE DISCOUNTING

Producers commonly provide intermediaries with discounts, or reductions, from list prices. Although many types of discounts exist, they usually fall into one of five categories: trade, quantity, cash, seasonal, and allowance. Table 12.3 summarizes some reasons to use each type of discount and provides examples. Such discounts can be a significant factor in a marketing strategy.

Trade Discounts

A reduction off the list price given by a producer to an intermediary for performing certain functions is called a **trade (functional) discount**. A trade discount is usually stated in terms of a percentage or series of percentages off the list price. Intermediaries are given trade discounts as compensation for performing various functions, such as selling, transporting,

TABLE 12.3 Discounts Used for Business Markets

Type	Reasons for Use	Examples
Trade	To attract and keep effective resellers by compensating them for performing certain functions, such as transportation, warehousing, selling, and providing credit	A college bookstore pays about (functional) one-third less for a new textbook than the retail price a student pays.
Quantity	To encourage customers to buy large quantities when making purchases and, in the case of cumulative discounts, to encourage customer loyalty	Large department store chains purchase some women's apparel at lower prices than do individually owned specialty stores.
Cash	To reduce expenses associated with accounts receivable and collection by encouraging prompt payment of accounts	Numerous companies serving business markets allow a 2 percent discount if an account is paid within 10 days.
Seasonal	To allow a marketer to use resources more efficiently by stimulating sales during off-peak periods	Florida hotels provide companies holding national and regional sales meetings with deeply discounted accommodations during the summer months.
Allowance	In the case of a trade-in allowance, to assist the buyer in making the purchase and potentially earning a profit on the resale of used equipment; in the case of a promotional allowance, to ensure that dealers participate in advertising and sales support programs	A farm equipment dealer takes a farmer's used tractor as a trade-in on a new one. Nabisco pays a promotional allowance to a supermarket for setting up and maintaining a large, end-of-aisle display for a two-week period.

storing, final processing, and perhaps providing credit services. Although certain trade discounts are often a standard practice within an industry, discounts vary considerably among industries. It is important that a manufacturer provide a trade discount large enough to offset the intermediary's costs, plus a reasonable profit, to entice the reseller to carry the product.

Quantity Discounts

Deductions from list price that reflect the economies of purchasing in large quantities are called **quantity discounts**. Quantity discounts are used in many industries and pass on to the buyer cost savings gained through economies of scale.

Quantity discounts can be either cumulative or noncumulative. **Cumulative discounts** are quantity discounts aggregated over a stated time period. Purchases totaling \$10,000 in a three-month period, for example, might entitle the buyer to a 5 percent, or \$500, rebate. Such discounts are intended to reflect economies in selling and to encourage the buyer to purchase from one seller. **Noncumulative discounts** are one-time reductions in prices based on the number of units purchased, the dollar value of the order, or the product mix purchased. Like cumulative discounts, these discounts should reflect some economies in selling or trade functions.

Cash Discounts

A **cash discount**, or price reduction, is given to a buyer for prompt payment or cash payment. Accounts receivable are an expense and a collection problem for many organizations. A policy to encourage prompt payment is a popular practice and sometimes a major concern in setting prices.

Discounts are based on cash payments or cash paid within a stated time. For instance, "2/10 net 30" means that a 2 percent discount will be allowed if the account is paid within 10 days. If the buyer does not make payment within the 10-day period, the entire balance is due within 30 days without a discount. If the account is not paid within 30 days, interest may be charged.

Seasonal Discounts

A price reduction to buyers that purchase goods or services out of season is a **seasonal discount**. These discounts let the seller maintain steadier production during the year. For example, automobile rental agencies offer seasonal discounts in winter and early spring to encourage firms to use automobiles during the slow months of the automobile rental business.

Allowances

Another type of reduction from the list price is an **allowance**, a concession in price to achieve a desired goal. Trade-in allowances, for example, are price reductions granted for turning in a used item when purchasing a new one. Allowances help make the buyer better able to make the new purchase. This type of discount is popular in the

cash discount

A price reduction given to buyers for prompt payment or cash payment

seasonal discount

A price reduction given to buyers for purchasing goods or services out of season

allowance

A concession in price to achieve a desired goal

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Pricing for Business Markets

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aircraft industry. Another example is a promotional allowance, a price reduction granted to dealers for participating in advertising and sales support programs intended to increase sales of a particular item.

GEOGRAPHIC PRICING

Geographic pricing involves reductions for transportation costs or other costs associated with the physical distance between buyer and seller. Prices may be quoted as F.O.B. (free-on-board) factory or destination. An **F.O.B. factory** price indicates the price of the merchandise at the factory, before it is loaded onto the carrier, and thus excludes transportation costs. The buyer must pay for shipping. An **F.O.B. destination** price means the producer absorbs the costs of shipping the merchandise to the customer. This policy may be used to attract distant customers. Although F.O.B. pricing is an easy way to price products, it is sometimes difficult to administer, especially when a firm has a wide product mix or when customers are widely dispersed. Because customers will want to know about the most economical method of shipping, the seller must be informed about shipping rates.

To avoid the problems involved in charging different prices to each customer, **uniform geographic pricing**, sometimes called *postage-stamp pricing*, may be used. The same price is charged to all customers regardless of geographic location, and the price is based on average shipping costs for all customers. Paper products and office equipment are often priced on a uniform basis.

Zone pricing sets uniform prices for each of several major geographic zones; as the transportation costs across zones increase, so do the prices. For instance, a Florida manufacturer's prices may be higher for buyers on the Pacific Coast and in Canada than for buyers in Georgia.

Base-point pricing is a geographic pricing policy that includes the price at the factory, plus freight charges from the base point nearest the buyer. This approach to pricing has virtually been abandoned because of its questionable legal status. The policy resulted in all buyers paying freight charges from one location, such as Detroit or Pittsburgh, regardless of where the product was manufactured.

When the seller absorbs all or part of the actual freight costs, **freight absorption pricing** is being used. The seller might choose this method because it wishes to do business with a particular customer or to get more business; more business will cause the average cost to fall and counterbalance the extra freight cost. This strategy is used to improve market penetration and retain a hold in an increasingly competitive market.

TRANSFER PRICING

Transfer pricing occurs when one unit in an organization sells a product to another unit. The price is determined by one of the following methods:

- **Actual full cost:** calculated by dividing all fixed and variable expenses for a period into the number of units produced.
- **Standard full cost:** calculated based on what it would cost to produce the goods at full plant capacity.
- **Cost plus investment:** calculated as full cost plus the cost of a portion of the selling unit's assets used for internal needs.
- **Market-based cost:** calculated at the market price less a small discount to reflect the lack of sales effort and other expenses.

The choice of transfer pricing method depends on the company's management strategy and the nature of the units' interaction. An organization must also ensure that transfer pricing is fair to all units involved in the transactions.

geographic pricing

Reductions for transportation and other costs related to the physical distance between buyer and seller

F.O.B. factory

The price of merchandise at the factory before shipment

F.O.B. destination

A price indicating the producer is absorbing shipping costs

uniform geographic pricing

Charging all customers the same price, regardless of geographic location

zone pricing

Pricing based on transportation costs within major geographic zones

base-point pricing

Geographic pricing that combines factory price and freight charges from the base point nearest the buyer

freight absorption pricing

Absorption of all or part of actual freight costs by the seller

transfer pricing

Prices charged in sales between an organization's units

CHAPTER REVIEW

1 Understand the role of price.

Price is the value paid for a product in a marketing exchange. Barter, the trading of products, is the oldest form of exchange. Price is a key element in the marketing mix because it relates directly to generation of total revenue. The profit factor can be determined mathematically by multiplying price by quantity sold to get total revenue and then subtracting total costs. Price is the only variable in the marketing mix that can be adjusted quickly and easily to respond to changes in the external environment.

2 Identify the characteristics of price and nonprice competition.

A product offering can compete on either a price or a nonprice basis. Price competition emphasizes price as the product differential. Prices fluctuate frequently, and price competition among sellers is aggressive. Nonprice competition emphasizes product differentiation through distinctive features, service, product quality, or other factors. Establishing brand loyalty by using nonprice competition works best when the product can be physically differentiated and the customer can recognize these differences.

3 Explore demand curves and price elasticity of demand.

An organization must determine the demand for its product. The classic demand curve is a graph of the quantity of products expected to be sold at various prices if other factors hold constant. It illustrates that, as price falls, the quantity demanded usually increases. However, for prestige products, there is a direct positive relationship between price and quantity demanded: demand increases as price increases. Next, price elasticity of demand, the percentage change in quantity demanded relative to a given percentage change in price, must be determined. If demand is elastic, a change in price causes an opposite change in total revenue. Inelastic demand results in a parallel change in total revenue when a product's price is changed.

4 Examine the relationships among demand, costs, and profits.

Analysis of demand, cost, and profit relationships can be accomplished through marginal analysis

or break-even analysis. Marginal analysis examines what happens to a firm's costs and revenues when production (or sales volume) is changed by one unit. Marginal analysis combines the demand curve with the firm's costs to develop a price that yields maximum profit. Fixed costs do not vary with changes in the number of units produced or sold; average fixed cost is the fixed cost per unit produced. Variable costs vary directly with changes in the number of units produced or sold. Average variable cost is the variable cost per unit produced. Total cost is the sum of average fixed cost and average variable cost times the quantity produced. The optimal price is the point at which marginal cost (the cost associated with producing one more unit of the product) equals marginal revenue (the change in total revenue that occurs when one additional unit of the product is sold). Marginal analysis is only a model; it offers little help in pricing new products before costs and revenues are established.

Break-even analysis, determining the number of units that must be sold to break even, is important in setting price. The point at which the costs of production equal the revenue from selling the product is the break-even point. To use break-even analysis effectively, a marketer should determine the break-even point for each of several alternative prices. This makes it possible to compare the effects on total revenue, total costs, and the break-even point for each price under consideration. However, this approach assumes the quantity demanded is basically fixed and the major task is to set prices to recover costs.

5 Describe key factors that may influence marketers' pricing decisions.

Eight factors enter into price decision making: organizational and marketing objectives, pricing objectives, costs, other marketing mix variables, channel member expectations, customer interpretation and response, competition, and legal and regulatory issues. When setting prices, marketers should make decisions consistent with the organization's goals and mission. Pricing objectives heavily influence price-setting decisions. Most marketers view a product's cost as the floor below which a product cannot be priced. Because of the interrelationship among the marketing mix variables, price can affect product, promotion, and

distribution decisions. The revenue channel members expect for their functions must also be considered when making price decisions.

Buyers' perceptions of price vary. Some consumer segments are sensitive to price, but others may not be. Thus, before determining price, a marketer needs to be aware of its importance to the target market. Knowledge of the prices charged for competing brands is essential to allow the firm to adjust its prices relative to competitors'. Government regulations and legislation also influence pricing decisions.

6 Consider issues affecting the pricing of products for business markets.

The categories of discounts include trade, quantity, cash, seasonal, and allowance. A trade discount is a price reduction for performing such functions as storing, transporting, final processing, or providing credit services. If an intermediary purchases in large enough quantities, the producer gives a quantity discount, which can be either cumulative or non-cumulative. A cash discount is a price reduction for prompt payment or payment in cash. Buyers who purchase goods or services out of season may

be granted a seasonal discount. An allowance, such as a trade-in allowance, is a concession in price to achieve a desired goal.

Geographic pricing involves reductions for transportation costs or other costs associated with the physical distance between buyer and seller. With an F.O.B. factory price, the buyer pays for shipping from the factory. An F.O.B. destination price means the producer pays for shipping; this is the easiest way to price products, but it is difficult to administer. When the seller charges a fixed average cost for transportation, it is using uniform geographic pricing. Zone prices are uniform within major geographic zones; they increase by zone as transportation costs increase. With base-point pricing, prices are adjusted for shipping expenses incurred by the seller from the base point nearest the buyer. Freight absorption pricing occurs when a seller absorbs all or part of the freight costs.

Transfer pricing occurs when a unit in an organization sells products to another unit in the organization. Methods used for transfer pricing include actual full cost, standard full cost, cost plus investment, and market-based cost.

ONLINE RESOURCES

Please visit the student website at www.cengagebrain.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

price 339	marginal cost (MC) 347	noncumulative discounts 358
barter 339	marginal revenue (MR) 347	cash discount 359
price competition 340	break-even point 349	seasonal discount 359
nonprice competition 341	internal reference price 354	allowance 359
demand curve 342	external reference price 354	geographic pricing 360
price elasticity of demand 344	value conscious 355	F.O.B. factory 360
fixed costs 345	price conscious 355	F.O.B. destination 360
average fixed cost 346	prestige sensitive 355	uniform geographic pricing 360
variable costs 346	price discrimination 357	zone pricing 360
average variable cost 346	trade (functional) discount 358	base-point pricing 360
total cost 346	quantity discounts 358	freight absorption pricing 360
average total cost 346	cumulative discounts 358	transfer pricing 360

ISSUES FOR DISCUSSION AND REVIEW

1. Why are pricing decisions important to an organization?
2. Compare and contrast price and nonprice competition. Describe the conditions under which each form works best.
3. Why do most demand curves demonstrate an inverse relationship between price and quantity?
4. List the characteristics of products that have inelastic demand, and give several examples of such products.
5. Explain why optimal profits should occur when marginal cost equals marginal revenue.
6. Chambers Company has just gathered estimates for conducting a break-even analysis for a new product. Variable costs are \$7 a unit. The additional plant will cost \$48,000. The new product will be charged \$18,000 a year for its share of general overhead. Advertising expenditures will be \$80,000, and \$55,000 will be spent on distribution. If the product sells for \$12, what is the break-even point in units? What is the break-even point in dollar sales volume?
7. In what ways do other marketing mix variables affect pricing decisions?
8. What types of expectations may channel members have about producers' prices? How might these expectations affect pricing decisions?
9. How do legal and regulatory forces influence pricing decisions?
10. Compare and contrast a trade discount and a quantity discount.
11. What is the reason for using the term *F.O.B.*?
12. What are the major methods used for transfer pricing?

MARKETING APPLICATIONS

1. Price competition is intense in the fast-food, air travel, and personal computer industries. Discuss a recent situation in which companies had to meet or beat a rival's price in a price-competitive industry. Did you benefit from this situation? Did it change your perception of the companies and/or their products?
2. Customers' interpretations and responses regarding a product and its price are an important influence on marketers' pricing decisions. Perceptions of price are affected by the degree to which a customer is value conscious, price conscious, or prestige sensitive. Discuss how value consciousness, price consciousness, and prestige sensitivity influence the buying decision process for the following products:
 - a. A new house.
 - b. Weekly groceries for a family of five.
 - c. An airline ticket.
 - d. A soft drink from a vending machine.

ONLINE EXERCISE

3. AutoSite offers car buyers a free, comprehensive website to find the invoice prices for almost all car models. The browser can also access a listing of all the latest new-car rebates and incentives. Visit this site at www.autosite.com.
 - a. Find the lowest-priced Lexus available today, and examine its features. Which Lexus dealer is closest to you?
 - b. If you wanted to purchase this Lexus, what are the lowest monthly payments you could make over the longest time period?
 - c. Is this free site more credible than a "pay" site? Why or why not?

DEVELOPING YOUR MARKETING PLAN

The appropriate pricing of a product is an important factor in developing a successful marketing strategy. The price contributes to the profitability of the product and can deter competition from entering the market. A clear understanding of pricing concepts is essential in developing strategy

and the marketing plan. Consider the information in this chapter when focusing on the following issues:

1. Does your company currently compete based on price or nonprice factors? Should your new product continue with this approach?

2. Discuss the level of elasticity of demand for your product. Is additional information needed for you to determine its elasticity?
3. At various price points, calculate the break-even point for sales of your product.
4. Using Figure 12.8 as a guide, discuss the various factors that affect the pricing of your product.

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

WASHBURN GUITARS TUNES UP PRICING DECISIONS

Chicago-based Washburn Guitars has been making guitars, banjos, and mandolins for every kind of music and every kind of budget since 1883. Whether they play blues or bluegrass, heavy metal or hard rock, musicians and music students buy Washburn instruments for their sound quality, solid craftsmanship, and good looks. Professionals especially appreciate the way Washburn guitars stand up to the wear and tear of lengthy concert tours.

Washburn offers six product lines: electric guitars, acoustic guitars, bass guitars, bluegrass instruments, classical guitars, and travel guitars. More than two dozen of its guitars are designated as “Signature” models designed by well-known musicians, such as Dan Donegan of Disturbed, Scott Ian of Anthrax, Joe Trohman of Fall Out Boy, Nick Catanese of Black Label Society, Paul Stanley of Kiss, Nuno Bettencourt of Extreme, and Greg Tribbett of Mudvayne. These names add luster to the Washburn brand and enhance the perceived value of the specially designed Signature models.

In setting the manufacturer’s suggested retail price for each product, the company has established four broad price points. At the low end, products that sell for \$349 or less are entry level. Products that sell for \$350 to \$999 are intermediate level, and products that sell for \$1,000 to \$3,000 are professional level. At the high end, products that sell for more than \$3,000 are collectors’ level. At every level, Washburn promises that each of its instruments “represents the finest quality at the best possible price.”

The guitars made in Washburn’s U.S. factory are priced at \$2,259 and up, reflecting the high cost of handcrafting. These guitars are perceived to be high quality and are therefore in high demand among professional musicians. In fact, Washburn has a six- to nine-month backlog of orders for its U.S.-made guitars. Its highest-priced guitars—the few Signature models that sell for \$5,000 or more—not only influence customers’ perceptions of Washburn quality, they also attract attention and get people talking about the brand.

Apart from the high-end models, Washburn’s instruments are machine-manufactured outside the United States. This keeps both fixed and variable costs lower than in the U.S. factories.

Although Washburn’s variable costs go down as its manufacturing volume rises, the company has found that changing equipment to make different models takes time and adds to its costs.

Washburn sells its instruments through independent retailers in the United States, Canada, and several dozen countries worldwide. These stores receive quantity discounts for large orders and expect to earn a certain profit margin based on a percentage of the manufacturer’s suggested retail price for each product. Although the stores now face intense price competition from online-only retailers that have lower fixed costs, Washburn insists that its authorized retailers not offer discounts below certain minimum prices. Stores that price Washburn products lower than the company’s minimum receive a warning, and if they don’t change their prices, they are removed from the list of authorized retailers and receive no more shipments.

Washburn’s advertising campaigns include magazine and television commercials spotlighting the star quality of the performers and the particular Washburn guitars they prefer, without mentioning prices. Recent campaigns included podcasts that showed Washburn’s skilled employees carefully crafting Signature guitars for Nick Catanese and other musicians. Washburn has a strong online presence, including a virtual catalog and a Myspace page with a company blog and information about selected products and the performers who use them. Even after more than 125 years in the music business, Washburn still keeps its marketing—including its pricing—as fresh as the newest number-one hit song.²³

QUESTIONS FOR DISCUSSION

1. Is Washburn using price or nonprice competition? Explain your answer.
2. What effect do you think a manufacturer’s suggested retail price is likely to have on customers who buy Washburn guitars from a local music store?
3. Which factors shown in Figure 12.8 are likely to have a major impact on pricing decisions at Washburn?

CHAPTER 13

Pricing Management



Image: stock&people/Newscom

MARKETING INSIGHTS

Tata's Nano Needs More Than a Low Price

How can a car sell for less than \$3,000? That's the price Tata Motors set for its Nano, a four-door subcompact car introduced in India in 2009. With a rear-mounted motor, this tiny car includes absolutely no extras—no radio, no reclining seats. What the Nano does have, however, is an ultra-low price tag, which makes it very attractive to millions of potential buyers in India. Now “someone who never even dreamed of a car finds it within reach,” says Tata's CEO.

Racing to develop and market the world's cheapest car has been a challenge, even for India's largest automaker. The company's goal for the Nano was to create a functional yet eye-pleasing design that would fit buyers' lifestyles and tight budgets, but also be profitable to manufacture and sell. The most essential ingredient was keeping costs in line. By shaving the cost of each part and component, streamlining assembly methods, and offering only the basics, Tata has been able to achieve its low-price goal.

Initially, buyers responded enthusiastically to the Nano's low price tag. Tata received more than 200,000 orders during the 12 months after the car's launch. Then sales slowed, in part because of competition from slightly higher-priced, better-equipped cars, and because of news that a handful of Nanos had caught fire. Now, while India's auto industry is enjoying a strong growth spurt, Tata is retooling its marketing to combat competition and regain sales momentum by emphasizing the Nano's free, four-year warranty and its low, low price.¹

OBJECTIVES:

- 1 Describe the six major stages of the process used to establish prices.
- 2 Explore issues related to developing pricing objectives.
- 3 Understand the importance of identifying the target market's evaluation of price.
- 4 Examine how marketers analyze competitors' prices.
- 5 Describe the bases used for setting prices.
- 6 Explain the different types of pricing strategies.

FIGURE 13.1 Stages for Establishing Prices

Because price has such a profound impact on a firm's success, finding the right pricing strategy is crucial. Marketers at Tata Motors are able to set very competitive prices because the costs of raw materials are low. Selecting a pricing strategy is one of the fundamental components of the process of setting prices.

In this chapter, we examine six stages of a process that marketers can use when setting prices. Figure 13.1 illustrates these stages. Stage 1 is the development of a pricing objective that is compatible with the organization's overall marketing objectives. Stage 2 entails assessing the target market's evaluation of price. Stage 3 involves evaluating competitors' prices, which helps determine the role of price in the marketing strategy. Stage 4 requires choosing a basis for setting prices. Stage 5 is the selection of a pricing strategy, or the guidelines for using price in the marketing mix. Stage 6, determining the final price, depends on environmental forces and marketers' understanding and use of a systematic approach to establishing prices. These stages are not rigid steps that all marketers must follow; rather, they are guidelines that provide a logical sequence for establishing prices.

Development of Pricing Objectives

The first step in setting prices is developing **pricing objectives**—goals that describe what a firm wants to achieve through pricing. Developing pricing objectives is an important task because pricing objectives form the basis for decisions for other stages of the pricing process. Thus, pricing objectives must be stated explicitly, and the statement should include the time frame for accomplishing them.

Marketers must ensure that pricing objectives are consistent with the firm's marketing and overall objectives because pricing objectives influence decisions in many functional areas, including finance, accounting, and production. A marketer can use both short- and long-term pricing objectives and can employ one or multiple pricing objectives. For instance, a firm may wish to increase market share by 18 percent over the next three years, achieve a 15 percent return on investment, and promote an image of quality in the marketplace.

In this section, we examine some of the pricing objectives companies might set for themselves. Table 13.1 shows the major pricing objectives and typical actions associated with them.

pricing objectives

Goals that describe what a firm wants to achieve through pricing

SURVIVAL

Survival is one of the most fundamental pricing objectives. Most organizations will tolerate setbacks, such as short-run losses and internal upheaval, if necessary for survival. Even Abercrombie

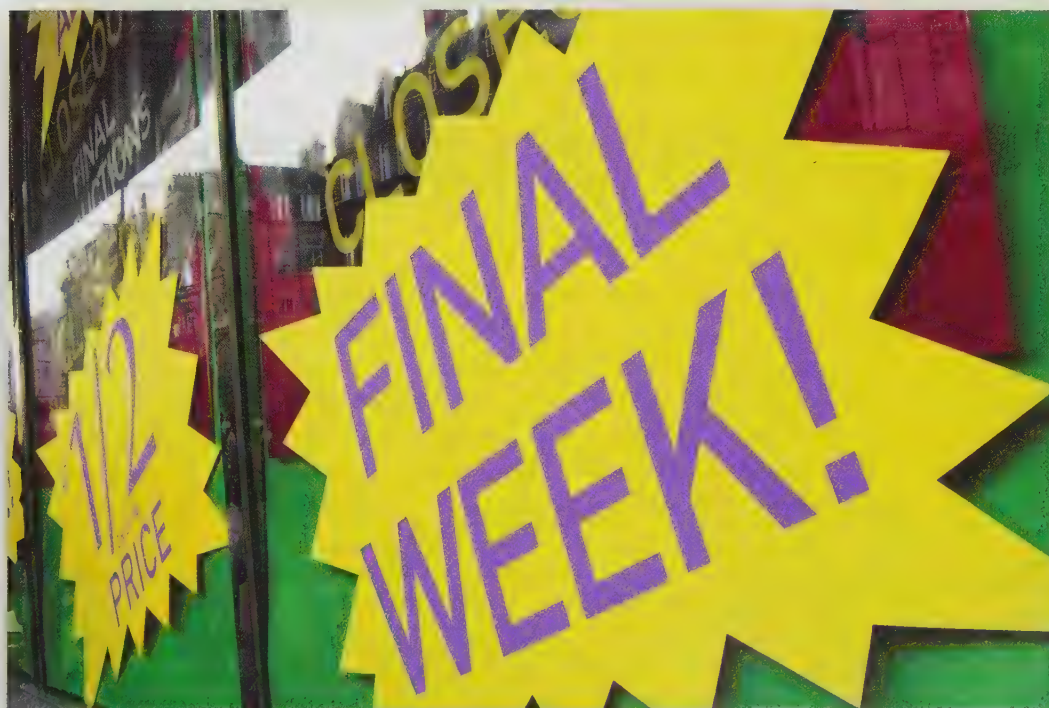
TABLE 13.1 Pricing Objectives and Typical Actions Taken to Achieve Them

Objective	Possible Action
Survival	Adjust price levels so the firm can increase sales volume to match organizational expenses
Profit	Identify price and cost levels that allow the firm to maximize profit
Return on investment	Identify price levels that enable the firm to yield targeted ROI
Market share	Adjust price levels so the firm can maintain or increase sales relative to competitors' sales
Cash flow	Set price levels to encourage rapid sales
Status quo	Identify price levels that help stabilize demand and sales
Product quality	Set prices to recover research and development expenditures and establish a high-quality image

& Fitch had to resort to price reductions on its luxury priced clothing to stay in business during the recent economic downturn. Declining profits forced the retailer to adjust prices to better compliment customer's smaller budgets.² Because price is a flexible variable, it is sometimes used to keep a company afloat by increasing sales volume to levels that match expenses.

PROFIT

Although a business may claim that its objective is to maximize profits for its owners, the objective of profit maximization is rarely operational because its achievement is difficult to measure. Because of this difficulty, profit objectives tend to be set at levels that the owners and top-level decision makers view as satisfactory. Specific profit objectives may be stated in terms of either actual dollar amounts or a percentage of sales revenues.



Survival

Some retailers have to discount to generate revenue so they can pay rent, pay employees' wages, or purchase more inventory.

www.dyson.com

\$233**Other vacuums keep costing**

Other machines are still designed to need replacement belts and filters—which can be tricky to find, let alone replace. Over five years the average maintenance cost could be \$233.*

Dyson vacuums keep working

With Dyson there are no bags, filters or belts to buy. Dyson uprights and canisters are also guaranteed for five years so they don't cost a dime to maintain.

dyson

The vacuum that doesn't lose suction



© Dyson

Product Quality

This ad for Dyson vacuum cleaners focuses on the high quality of the company's premium products.

RETURN ON INVESTMENT

Pricing to attain a specified rate of return on the company's investment is a profit-related pricing objective. Most pricing objectives based on return on investment (ROI) are achieved by trial and error because not all cost and revenue data needed to project the return on investment are available when setting prices. General Motors, for example, uses ROI pricing objectives. Many pharmaceutical companies also use ROI pricing objectives because of their great investment in research and development.

MARKET SHARE

Many firms establish pricing objectives to maintain or increase market share, a product's sales in relation to total industry sales. AT&T, for example, cut the price of its iPhone 3GS in half in order to maintain its significant iPhone market share shortly after Verizon announced it would soon begin offering iPhones to its customers.³ Many firms recognize that high relative market shares often translate into higher profits. The Profit Impact of Market Strategies (PIMS) studies, conducted over the past 30 years, have shown that both market share and product quality heavily influence profitability. Thus, marketers often use an increase in market share as a primary pricing objective.

Maintaining or increasing market share need not depend on growth in industry sales. Remember that an organization can increase its market share even if sales for the total industry are flat or decreasing. On the other hand, a firm's sales volume may increase while its market share decreases if the overall market is growing.

CASH FLOW

Some companies set prices so they can recover cash as quickly as possible. Financial managers understandably seek to quickly recover capital spent to develop products. This objective may have the support of a marketing manager who anticipates a short product life cycle. Although it may be acceptable in some situations, the use of cash flow and recovery as an objective oversimplifies the contribution of price to profits. If this pricing objective results in high prices, competitors with lower prices may gain a large share of the market.

STATUS QUO

In some cases, an organization is in a favorable position and, desiring nothing more, may set an objective of status quo. Status quo objectives can focus on several dimensions, such as maintaining a certain market share, meeting (but not beating) competitors' prices, achieving price stability, and maintaining a favorable public image. A status quo pricing objective can reduce a firm's risks by helping to stabilize demand for its products. The use of status quo pricing objectives sometimes minimizes pricing as a competitive tool, leading to a climate of nonprice competition in an industry. Professionals such as accountants and attorneys often operate in such an environment.

PRODUCT QUALITY

A company may have the objective of leading its industry in product quality. This goal normally dictates a high price to cover the costs of achieving high product quality and, in some instances, the costs of research and development. For example, Bentley Motors uses

premium prices to help signal the quality of its hand-made cars, which can range in cost from \$181,200 to more than \$363,000, depending on accessories and options.⁴ As previously mentioned, the PIMS studies have shown that both product quality and market share are good indicators of profitability. The products and brands that customers perceive to be of high quality are more likely to survive in a competitive marketplace. High quality usually enables a marketer to charge higher prices for the product.

Assessment of the Target Market's Evaluation of Price

After developing pricing objectives, marketers next must assess the target market's evaluation of price. Despite the general assumption that price is a major issue for buyers, the importance of price depends on the type of product, the type of target market, and the purchase situation. For instance, buyers are probably more sensitive to gasoline prices than luggage prices. With respect to the type of target market, adults may have to pay more than children for certain products. The purchase situation also affects the buyer's view of price. Most moviegoers would never pay in other situations the prices charged for soft drinks, popcorn, and candy at movie concession stands. By assessing the target market's evaluation of price, a marketer is in a better position to know how much emphasis to put on price in the overall marketing strategy. Information about the target market's price evaluation may also help a marketer determine how far above the competition the firm can set its prices.

Because some consumers today are seeking less-expensive products and shopping more selectively, some manufacturers and retailers are focusing on the value of their products. Value combines a product's price and quality attributes, which customers use to differentiate among competing brands. According to an IRI poll, 56 percent of consumers said they would not spend as much eating out as they did last year. Despite this trend, Steak 'n Shake actually saw a 3 percent gain in sales when the company changed its marketing strategy to focus on value. The company's marketing highlighted its food's flavor as well as its four meals under \$4.⁵ Consumers are looking for good deals on products that provide better value for their money. They may also view products that have highly desirable attributes, such as organic content or time-saving features, as having great value. Consumers are also increasingly willing to pay a higher price for food that is convenient and time saving, as illustrated in Table 13.2. Companies that offer

TABLE 13.2 Examples of Perceptions of Product Value

Basic, Cost-Effective Product	Expensive, Time-Saving Product
Whole loose bagels, 59¢ each	Sliced packaged bagels, 65¢ each
Whole broccoli, \$1.49/lb	Florets broccoli, \$3.99/lb
Whole carrots, \$1.49/lb	Baby carrots, \$3.99/lb
Whole chicken, \$1.49/lb	Cut up chicken, \$1.99/lb
Whole feta cheese, \$3.23/8 oz	Crumbled feta cheese, \$8.65/8 oz
Whole Granny Smith apples, \$1.99/lb	Sliced Granny Smith apples, \$3.97/lb
Lean ground chuck (ground), \$3.99/lb	Lean ground chuck (patties), \$5.99/lb

Source: "Supermarket Smarts," *Consumer Reports ShopSmart*, www.shopsmartmag.org/files/Supermarket_smarts.pdf (accessed July 18, 2011).



Source: "Play Before Work: Games Most Popular Mobile App Category in US," Nielsen Wire, July 6, 2011, http://blog.nielsen.com/nielsenwire/online_mobile/games-most-popular-mobile-app-category/ (accessed July 18, 2011).

both low prices and high quality, like Target and Best Buy, have altered consumers' expectations about how much quality they must sacrifice for low prices.⁶ Understanding the importance of a product to customers, as well as their expectations about quality and value, helps marketers correctly assess the target market's evaluation of price.

Evaluation of Competitors' Prices

In most cases, marketers are in a better position to establish prices when they know the prices charged for competing brands, the third step in establishing prices. Discovering competitors' prices may be a regular function of marketing research. Some grocery and department stores, for example, have full-time comparative shoppers who systematically collect data on prices. Companies may also purchase price lists, sometimes weekly, from syndicated marketing research services.

Uncovering competitors' prices is not always easy, especially in producer and reseller markets. Competitors' price lists are often closely guarded. Even if a marketer has access to competitors' price lists, those lists may not reflect the actual prices at which competitive products are sold because those prices may be established through negotiation.

Knowing the prices of competing brands can be very important for a marketer. Competitors' prices and the marketing mix variables they emphasize partly determine how important price will be to customers. A marketer in an industry in which price competition prevails needs competitive price information to ensure its prices are the same as, or lower than, competitors' prices. In some instances, an organization's prices are designed to be slightly above competitors' prices to give its products an exclusive image. In contrast, another company may use price as a competitive tool and price its products below those of competitors. The Ford Fusion hybrid sedan, for example, is priced about \$3,000 less than the top-selling Toyota Prius. Although the Prius delivers nearly 10 miles per gallon more than the Fusion, Ford's vehicle offers a more spacious interior; considerably more horsepower; eco-friendly cloth seats; and several new features, including BLIS, a blind spot monitoring system, and Cross Traffic Alert, which checks for traffic when the vehicle is backing out of a parking spot or driveway.⁷

Selection of a Basis for Pricing

The fourth step involves selecting a basis for pricing: cost, demand, and/or competition. The selection of the basis to use is affected by the type of product, the market structure of the industry, the brand's market share position relative to competing brands, and customer characteristics. Although we discuss each basis separately in this section, an organization generally considers two or all three of these dimensions, even if one is the primary basis on which it determines prices. For example, if a company is using cost as a basis for setting prices, marketers in that firm are also aware of and concerned about competitors' prices. If a company is using demand as a basis for pricing, those making pricing decisions still must consider costs and competitors' prices. Indeed, cost is a factor in every pricing decision because it establishes a price minimum below which the firm will not be able to recoup its production and other costs; demand likewise sets an effective price maximum

above which customers are unlikely to buy the product. Fairchild Semiconductor uses software to assess all three dimensions, as well as buying behavior, manufacturing capacity, inventories, and product life cycles, in setting prices for more than 44,000 products.⁸

COST-BASED PRICING

With **cost-based pricing**, a dollar amount or percentage is added to the cost of the product. This approach thus involves calculations of desired profit margins. Cost-based pricing does not necessarily take into account the economic aspects of supply and demand, nor must it relate to just one pricing strategy or pricing objective. Cost-based pricing is straightforward and easy to implement. Two common forms of cost-based pricing are cost-plus and markup pricing.

Cost-Plus Pricing

With **cost-plus pricing**, the seller's costs are determined (usually during a project or after a project is completed), and then a specified dollar amount or percentage of the cost is added to the seller's cost to establish the price. When production costs are difficult to predict, cost-plus pricing is appropriate. Projects involving custom-made equipment and commercial construction are often priced using this technique. The government frequently uses such cost-based pricing in granting defense contracts. One pitfall for the buyer is that the seller may increase costs to establish a larger profit base. Furthermore, some costs, such as overhead, may be difficult to determine. In periods of rapid inflation, cost-plus pricing is popular, especially when the producer must use raw materials that are fluctuating in price. In industries in which cost-plus pricing is common and sellers have similar costs, price competition may not be especially intense.

Markup Pricing

With **markup pricing**, commonly used by retailers, a product's price is derived by adding a predetermined percentage of the cost, called *markup*, to the cost of the product. For instance, Costco, a warehouse club, has a very low average markup of 11 percent, while most supermarkets are in the mid-20s range.⁹ One markup that might shock you is the average markup for popcorn in movie theaters, which is about 1,300 percent. Popcorn is not expensive, but consumers are willing to pay the markup to enhance their movie experience by enjoying warm buttery popcorn at the theater.¹⁰ Although the percentage markup in a retail store varies from one category of goods to another—35 percent of cost for hardware items and 100 percent of cost for greeting cards, for example—the same percentage is often used to determine the prices on items within a single product category, and the percentage markup may be largely standardized across an industry at the retail level. Using a rigid percentage markup for a specific product category reduces pricing to a routine task that can be performed quickly.

Markup can be stated as a percentage of the cost or as a percentage of the selling price. The following example illustrates how percentage markups are determined and points out the differences in the two methods. Assume a retailer purchases a can of tuna at 45 cents, adds 15 cents to the cost, and then prices the tuna at 60 cents. Here are the figures:

$$\begin{aligned}\text{markup as percentage of cost} &= \text{markup/cost} \\ &= 15/45 \\ &= 33.3\%\end{aligned}$$



Marketing Debate

Pricing Public Places: When Tax Dollars Aren't Enough

ISSUE: *Should cities charge admission to formerly free public attractions in order to curtail the budget shortfall?*

Financially strapped cities and states are instituting admission fees for parks and other public attractions that formerly were free. Facing budget problems, Georgia, Tennessee, and other states want to raise admission and/or parking fees to help cover the cost of operating public attractions. California, Florida, and Washington, among others, may close some museums and parks as part of their plans to close budget gaps.

Critics object to higher prices for state attractions. They note that tax dollars are paying for those sites and members of the public who cannot afford the new prices will be unable to take advantage of what the sites offer. However, proponents of the new prices argue that without increased revenue, states will be unable to afford the upkeep on some sites and will either shut some down or drastically curtail operating hours. Other alternatives that are being considered are raising money by inviting corporate sponsorship or charging usage fees for some activities.^a

cost-based pricing

Adding a dollar amount or percentage to the cost of the product

cost-plus pricing

Adding a specified dollar amount or percentage to the seller's cost

markup pricing

Adding to the cost of the product a predetermined percentage of that cost

$$\begin{aligned}\text{markup as percentage of selling price} &= \text{markup/selling price} \\ &= 15/60 \\ &= 25.0\%\end{aligned}$$

Obviously, when discussing a percentage markup, it is important to know whether the markup is based on cost or selling price.

Markups normally reflect expectations about operating costs, risks, and stock turnovers. Wholesalers and manufacturers often suggest standard retail markups that are considered profitable. To the extent that retailers use similar markups for the same product category, price competition is reduced. In addition, using rigid markups is convenient and is the major reason retailers, which face numerous pricing decisions, favor this method.

demand-based pricing

Pricing based on the level of demand for the product

competition-based pricing

Pricing influenced primarily by competitors' prices

DEMAND-BASED PRICING

Marketers sometimes base prices on the level of demand for the product. When **demand-based pricing** is used, customers pay a higher price when demand for the product is strong and a lower price when demand is weak. For example, hotels that otherwise attract numerous travelers often offer reduced rates during lower-demand periods. Some telephone companies, such as Sprint and AT&T, also use demand-based pricing by charging peak and off-peak rates or offering free cell phone minutes during off-peak times. While demand-based pricing is a common practice with cell phone minutes, airplane seats, and hotel rooms, some concerts and road shows have also implemented demand-based pricing for ticket sales. Once a show sells a certain number of tickets, the price per ticket increases. This allows companies to adjust ticket prices accordingly, improving profit for popular shows.¹¹

To use this pricing basis, a marketer must be able to estimate the amounts of a product consumers will demand at different prices. The marketer then chooses the price that generates the highest total revenue. Obviously, the effectiveness of demand-based pricing depends on the marketer's ability to estimate demand accurately. Compared with cost-based pricing, demand-based pricing places a firm in a better position to reach higher profit levels, assuming buyers value the product at levels sufficiently above the product's cost.

COMPETITION-BASED PRICING

With **competition-based pricing**, an organization considers costs to be secondary to competitors' prices. The importance of this method increases when competing products are relatively homogeneous and the organization is serving markets in which price is a key purchase consideration. A firm that uses competition-based pricing may choose to price below competitors' prices, above competitors' prices, or at the same level. Airlines use competition-based pricing, often charging identical fares on the same routes. Online travel services such as Orbitz, Expedia, and Priceline.com have also employed competition-based pricing. If you want to sell your home without the aid of a realtor, how do you determine the value of your home and thus a competitive asking price? One way is to turn to websites that offer estimates of your home's value based on its size and the sale of comparable homes in the area. While you may think your home is worth as much as a castle, if you set the asking price too high above comparable homes for sale, buyers will likely choose one with a lower price.



© Bernhard Classen/Alamy

Competition-Based Pricing

To compete, department stores, like Macy's, engage in competition-based pricing by having sales frequently.

Although not all introductory marketing texts have exactly the same price, they do have similar prices. The price the bookstore paid to the publishing company for this textbook was determined on the basis of competitors' prices. Competition-based pricing can help a firm achieve the pricing objective of increasing sales or market share. Competition-based pricing may necessitate frequent price adjustments. For instance, for many competitive airline routes, fares are adjusted often.

Selection of a Pricing Strategy

After choosing a basis for pricing, the next step is to select a pricing strategy, an approach or a course of action designed to achieve pricing and marketing objectives. Generally, pricing strategies help marketers solve the practical problems of establishing prices. Table 13.3 lists the most common pricing strategies, which we discuss in this section.

DIFFERENTIAL PRICING

An important issue in pricing decisions is whether to use a single price or different prices for the same product. Using a single price has several benefits. A primary advantage is simplicity. A single price is easily understood by both employees and customers, and because many salespeople and customers dislike having to negotiate a price, it reduces the chance of an adversarial relationship developing between marketer and customer. The use of a single price does create some challenges, however. If the single price is too high, some potential customers

TABLE 13.3 Common Pricing Strategies

Differential Pricing	Psychological Pricing
Negotiated pricing	Reference pricing
Secondary-market pricing	Bundle pricing
Periodic discounting	Multiple-unit pricing
Random discounting	Everyday low prices
	Odd-even pricing
New-Product Pricing	Customary pricing
Price skimming	Prestige pricing
Penetration pricing	
	Professional Pricing
Product-Line Pricing	
Captive pricing	Promotional Pricing
Premium pricing	Price leaders
Bait pricing	Special-event pricing
Price lining	Comparison discounting

Source: "Stop Getting Eaten Alive by Grocery Bills," *Money*, January 2006, p. 34.

Green Marketing



Congestion Pricing

London, Stockholm, and San Francisco use it, Atlanta is about to use it, and New York has talked about using it for years. These cities are using congestion pricing to reduce traffic snarls during peak periods—and it works.

Under London's congestion-pricing program, drivers pay the equivalent of \$10 to enter the city center on weekdays. This has reduced the number of cars on city streets, helped traffic move more quickly, and raised money for mass transit.

To tame its traffic problems, Atlanta is opening a special "Express Lane" to and from the city, with tolls starting at 10 cents per mile (going as high as \$1 per mile) depending on highway volume. After San Francisco hiked Bay Bridge tolls during rush hours, traffic jams eased at the bridge toll plaza and traffic moved more quickly. However, congestion pricing is stalled in New York City, where opponents fear it will discourage tourism and burden workers who must drive into Manhattan.^b

may be unable to afford the product. If it is too low, the organization loses revenue from those customers who would have paid more had the price been higher.

Differential pricing means charging different prices to different buyers for the same quality and quantity of product. As a student, you might be familiar with differential pricing for your tuition. Some colleges charge a higher tuition for certain majors, such as business, engineering, and medicine. These higher fees are called differential tuition.¹² For differential pricing to be effective, the market must consist of multiple segments with different price sensitivities, and the method should be used in a way that avoids confusing or antagonizing customers. Customers who are paying the lower prices should not be able to resell the product to the individuals and organizations that are paying the higher prices, unless that is the seller's intention. Differential pricing can occur in several ways, including negotiated pricing, secondary-market discounting, periodic discounting, and random discounting.

Negotiated Pricing

Negotiated pricing occurs when the final price is established through bargaining between seller and customer. If you buy a house, for example, you are likely to negotiate the final price with the seller. Negotiated pricing occurs in a number of industries and at all levels of distribution. Cutler-Hammer/Eaton streamlined its contract-negotiations process for more than 90,000 products by reducing quote response times and implementing automatic acceptance of offers.¹³ Even when there is a predetermined stated price or a price list, manufacturers, wholesalers, and retailers may negotiate to establish the final sales price. Consumers commonly negotiate prices for houses, cars, and used equipment.

Secondary-Market Pricing

Secondary-market pricing means setting one price for the primary target market and a different price for another market. Often the price charged in the secondary market is lower. However, when the costs of serving a secondary market are higher than normal, secondary-market customers may have to pay a higher price. Examples of secondary markets include a geographically isolated domestic market, a market in a foreign country, and a segment willing to purchase a product during off-peak times. For example, some restaurants offer special "early-bird" prices during the early evening hours, movie theaters offer senior citizen and afternoon matinee discounts, and some textbooks and pharmaceutical products are sold for considerably less in certain foreign countries than in the United States. Secondary markets give an organization an opportunity to use excess capacity and stabilize the allocation of resources.

differential pricing

Charging different prices to different buyers for the same quality and quantity of product

negotiated pricing

Establishing a final price through bargaining between seller and customer

secondary-market pricing

Setting one price for the primary target market and a different price for another market

Periodic Discounting

Periodic discounting is the temporary reduction of prices on a patterned or systematic basis. Most retailers, for example, have annual holiday sales. Some women's apparel stores have two seasonal sales each year: a winter sale in the last two weeks of January and a summer sale in the first two weeks of July. Automobile dealers regularly discount prices on current models in the fall, when the next year's models are introduced. From the marketer's point of view, a major problem with periodic discounting is that because the discounts follow a pattern, customers can predict when the reductions will occur and may delay their purchases until they can take advantage of the lower prices. Research suggests that placing a time limit on periodic discounts does not directly affect consumers' perceptions of the products' value or their search and purchase behavior.

Random Discounting

To alleviate the problem of customers knowing when discounting will occur, some organizations employ **random discounting**; that is, they temporarily reduce their prices on an unsystematic basis. When price reductions of a product occur randomly, current users of that brand are likely unable to predict when the reductions will occur and thus will not delay their purchases. However, in the automobile industry, with its increasing reliance on sales, rebates, and incentives such as 0 percent financing, random discounting has become nearly continuous discounting, and some analysts have warned that automakers will find it increasingly difficult to cease the generous incentives that consumers have come to expect. Marketers also use random discounting to attract new customers. For instance, Dove may temporarily reduce the price of one of its bar soaps in the hope of attracting new customers.

Whether they use periodic discounting or random discounting, retailers often employ *tensile pricing* when putting products on sale. *Tensile pricing* refers to a broad statement about price reductions as opposed to detailing specific price discounts. Examples of tensile pricing would be statements such as "20 to 50 percent off," "up to 75 percent off," and "save 10 percent

periodic discounting

Temporary reduction of prices on a patterned or systematic basis

random discounting

Temporary reduction of prices on an unsystematic basis



Random Discounting

Retailers use random discounting so customers can't predict when price reductions will occur.

or more.” Generally, using and advertising the tensile price that mentions only the maximum reduction (such as “up to 50 percent off”) generates the highest customer response.¹⁴

NEW-PRODUCT PRICING

Setting the base price for a new product is a necessary part of formulating a marketing strategy. The base price is easily adjusted (in the absence of government price controls), and its establishment is one of the most fundamental decisions in the marketing mix. The base price can be set high to recover development costs quickly or provide a reference point for developing discount prices for different market segments. When a marketer sets base prices, it also considers how quickly competitors will enter the market, whether they will mount a strong campaign on entry, and what effect their entry will have on the development of primary demand. Two strategies used in new-product pricing are price skimming and penetration pricing.

Price Skimming

Price skimming means charging the highest possible price that buyers who most desire the product will pay. This approach provides the most flexible introductory base price. Demand tends to be inelastic in the introductory stage of the product life cycle.

Price skimming can provide several benefits, especially when a product is in the introductory stage of its life cycle. A skimming policy can generate much-needed initial cash flows to help offset sizable development costs. Price skimming protects the marketer from problems that arise when the

price is set too low to cover costs. When a firm introduces a product, its production capacity may be limited. A skimming price can help keep demand consistent with the firm's production capabilities. The use of a skimming price may attract competition into an industry because the high price makes that type of business appear quite lucrative. New-product prices should be based on both the value to the customer and competitive products.

Penetration Pricing

With **penetration pricing**, prices are set below those of competing brands to penetrate a market and gain a large market share quickly. This approach is less flexible for a marketer than price skimming because it is more difficult to raise a penetration price than to lower or discount a skimming price. It is not unusual for a firm to use a penetration price after having skimmed the market with a higher price.

Penetration pricing can be especially beneficial when a marketer suspects that competitors could enter the market easily. If penetration pricing allows the marketer to gain a large market share quickly, competitors may be discouraged from entering the market. In addition, because the lower per-unit penetration price results in lower per-unit profit, the market may not appear to be especially lucrative to potential new entrants.

PRODUCT-LINE PRICING

Rather than considering products on an item-by-item basis when determining pricing strategies, some marketers employ product-line pricing. **Product-line pricing** means establishing and adjusting the prices of multiple products within a product line. When marketers

price skimming

Charging the highest possible price that buyers who most desire the product will pay

penetration pricing

Setting prices below those of competing brands to penetrate a market and gain a significant market share quickly

product-line pricing

Establishing and adjusting prices of multiple products within a product line

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Captive Pricing

Products that require component replacement on a regular basis, such as razors and printers, may be relatively inexpensive, but the replacement components are premium priced. This type of pricing is referred to as captive pricing.

use product-line pricing, their goal is to maximize profits for an entire product line rather than focusing on the profitability of an individual product. Product-line pricing can lend marketers flexibility in price setting. For example, marketers can set prices so that one product is quite profitable while another increases market share due to having a lower price than competing products.

Before setting prices for a product line, marketers evaluate the relationship among the products in the line. When products in a line are complementary, sales increases in one item raise demand for other items. For instance, desktop printers and toner cartridges are complementary products. When products in a line function as substitutes for one another, buyers of one product in the line are unlikely to purchase one of the other products in the same line. In this case, marketers must be sensitive to how a price change for one of the brands may affect the demand not only for that brand but also for the substitute brands. For instance, if decision makers at Procter & Gamble were considering a price change for Tide detergent, they would be concerned about how the price change might influence sales of Cheer, Bold, and Gain.

When marketers employ product-line pricing, they have several strategies from which to choose. These include captive pricing, premium pricing, bait pricing, and price lining.

Captive Pricing

With **captive pricing**, the basic product in a product line is priced low, whereas items required to operate or enhance it are priced higher. Printer companies have used this pricing strategy: providing relatively low-cost, low-margin printers and selling ink cartridges to generate significant profits. Kodak, however, is promoting a printer that goes against the captive pricing strategy used by the majority in the market. Kodak has introduced a slightly more expensive printer that uses ink cartridges that are priced cheaper than the competition.¹⁵

Premium Pricing

Premium pricing is often used when a product line contains several versions of the same product; the highest-quality products or those with the most versatility are given the highest prices. Chevrolet, for example, prices its fastest, most powerful Corvette ZR1 at more than \$111,000. The company expects its premium-priced Corvette, with its hand-built 638-horsepower V8 engine, to compete with the performance of a Ferrari.¹⁶ Other products in the line are priced to appeal to price-sensitive shoppers or to buyers who seek product-specific features.

Marketers that use a premium strategy often realize a significant portion of their profits from premium-priced products. Examples of product categories that commonly use premium pricing are small kitchen appliances, beer, ice cream, and cable television service.

Bait Pricing

To attract customers, marketers may put a low price on one item in the product line with the intention of selling a higher-priced item in the line; this strategy is known as **bait pricing**. For example, a computer retailer might advertise its lowest-priced computer model, hoping that when customers come to the store they will purchase a higher-priced one. This strategy can facilitate sales of a line's higher-priced products. As long as a retailer has sufficient quantities of the advertised low-priced

captive pricing

Pricing the basic product in a product line low, while pricing related items higher

premium pricing

Pricing the highest-quality or most versatile products higher than other models in the product line

bait pricing

Pricing an item in a product line low with the intention of selling a higher-priced item in the line



Entrepreneurship in Marketing

Never Want to Wear the Same Dress Twice? Rent It!

Web-savvy entrepreneurs are making it easy to rent upscale fashion items with just a click. Jennifer Hyman and Jenny Fleiss, cofounders of Rent the Runway, recognized an opportunity during the recent recession to meet the needs of fashion-conscious consumers on a budget by renting luxury clothing and accessories online. After the recession, their business grew even more quickly as word spread about the availability of the latest, prestige-priced designer styles for rent.

Rental prices start at about 10 percent of the retail purchase price. Customers can click to browse fashions or call toll-free to consult with a style advisor about outfits and sizing. Each rental comes with a "backup" size, in case the chosen size doesn't fit perfectly. After that special occasion, customers simply slip the rented item into the postage-paid envelope, and Rent the Runway takes care of the dry cleaning. The entrepreneurs recently added luxury bridal fashions, complete with a personal fitting.^c

model available for sale, this strategy is considered acceptable. In contrast, *bait and switch* is an activity in which retailers have no intention of selling the bait product; they use the low price merely to entice customers into the store to sell them higher-priced products. Bait and switch is considered unethical, and in some states it is illegal.

Price Lining

When an organization sets a limited number of prices for selected groups or lines of merchandise, it is using **price lining**. A retailer may have various styles and brands of similar-quality men's shirts that sell for \$15 and another line of higher-quality shirts that sell for \$22. Microsoft set different prices for different versions of its Windows 7 operating system depending on features: the barebones Windows 7 Home Premium for \$120, Windows 7 Professional for \$200, and the feature-packed Windows 7 Ultimate for \$220.¹⁷ Price lining simplifies customers' decision making by holding constant one key variable in the final selection of style and brand within a line.

The basic assumption in price lining is that the demand for various groups or sets of products is inelastic. If the prices are attractive, customers will concentrate their purchases without responding to slight changes in price. Thus, a women's dress shop that carries dresses priced at \$85, \$55, and \$35 may not attract many more sales with a drop to, say, \$83, \$53, and \$33. The "space" between the price of \$85 and \$55, however, can stir changes in consumer response. With price lining, the demand curve looks like a series of steps, as shown in Figure 13.2.

Another type of price lining is subscription services. Cable or satellite TV subscribers choose different packages or groupings of channels with different prices. Likewise, subscribers to subscription DVD rental services like Netflix can choose a membership price based on the number of DVDs they want to receive at one time.

price lining

Setting a limited number of prices for selected groups or lines of merchandise

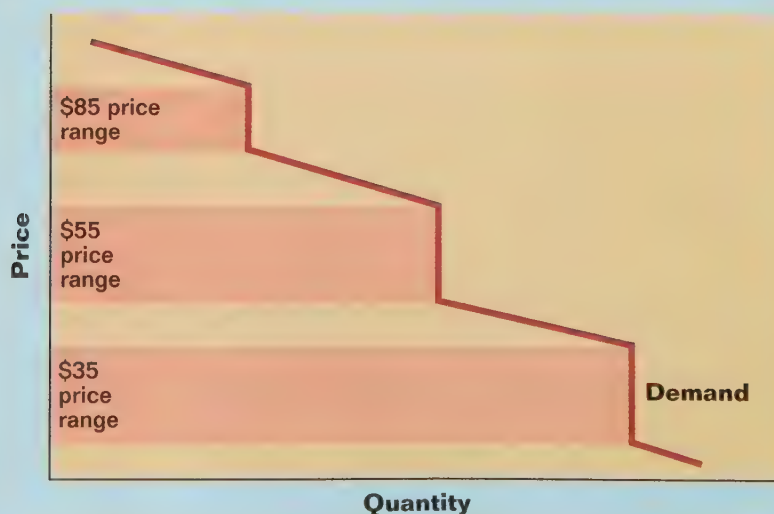
psychological pricing

Pricing that attempts to influence a customer's perception of price to make a product's price more attractive

PSYCHOLOGICAL PRICING

Learning the price of a product is not always a pleasant experience for customers. It is sometimes surprising (as at a movie concession stand) and sometimes downright horrifying; most of us have experienced some sort of "sticker shock." Researchers have found that consumers are likely to have negative reactions to incomplete or unclear pricing information, especially when it is conveyed through misleading communications.¹⁸ **Psychological pricing** attempts to influence

FIGURE 13.2 Price Lining



a customer's perception of price to make a product's price more attractive. In this section, we consider several forms of psychological pricing: reference pricing, bundle pricing, multiple-unit pricing, everyday low prices (EDLP), odd-even pricing, customary pricing, and prestige pricing.

Reference Pricing

Reference pricing means pricing a product at a moderate level and displaying it next to a more expensive model or brand in the hope that the customer will use the higher price as an external reference price (i.e., a comparison price). Because of the comparison, the customer is expected to view the moderate price favorably. Reference pricing is based on the "isolation effect," meaning an alternative is less attractive when viewed by itself than when compared with other alternatives. When you go to Best Buy to buy a DVD player, a moderately priced DVD player may appear especially attractive because it offers most of the important attributes of the more expensive alternatives on display and at a lower price.

Bundle Pricing

Bundle pricing is packaging together two or more products, usually complementary ones, to be sold at a single price. Many fast-food restaurants, for example, offer combination meals at a price that is lower than the combined prices of each item priced separately. Most telephone and cable television providers bundle local telephone service, broadband Internet access, and digital cable or satellite television for one monthly fee. To attract customers, the single bundled price is usually considerably less than the sum of the prices of the individual products. Microsoft, for example, sells its Xbox 360 console by itself, but for an extra \$100, customers can purchase a bundle that includes the Xbox 360 console, a Kinect sensor, and the Kinect Adventures game. If a customer chose to purchase the Kinect sensor and video game separately from the console, it would cost \$150.¹⁹ The opportunity to buy the bundled combination of products in a single transaction may be of value to the customer as well. Marketing research models suggest that marketers can develop heterogeneous bundles of products with optimal prices for different market segments.²⁰ Bundle pricing facilitates customer satisfaction and, when slow-moving products are bundled with those with a higher turnover, can help stimulate sales and increase revenues. It may also help foster customer loyalty and improve customer retention. Selling products as a package rather than individually may also result in cost savings. Bundle pricing is commonly used for banking and travel services, computers, and automobiles with option packages.

Multiple-Unit Pricing

Multiple-unit pricing occurs when two or more identical products are packaged together and sold at a single price. This normally results in a lower per-unit price than the price regularly charged. Multiple-unit pricing is commonly used for twin-packs of potato chips, 4-packs

reference pricing

Pricing a product at a moderate level and displaying it next to a more expensive model or brand

bundle pricing

Packaging together two or more complementary products and selling them at a single price

multiple-unit pricing

Packaging together two or more identical products and selling them at a single price

NO ANNUAL CONTRACT. NO BRAINER.

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Courtesy of Verizon

Bundle Pricing

Companies like Verizon bundle their services to offer discounted pricing, matching or undercutting their competitors.

of light bulbs, and 6- and 12-packs of soft drinks. Customers benefit from the cost savings and convenience this pricing strategy affords. A company may use multiple-unit pricing to attract new customers to its brands and, in some instances, to increase consumption of them. When customers buy in larger quantities, their consumption of the product may increase. For instance, multiple-unit pricing may encourage a customer to buy larger quantities of snacks, which are likely to be consumed in higher volume at the point of consumption simply because they are available. However, this is not true for all products. For instance, greater availability at the point of consumption of light bulbs, bar soap, and table salt is not likely to increase usage.

Discount stores and especially warehouse clubs, like Sam's Club and Costco, are major users of multiple-unit pricing. For certain products in these stores, customers receive significant per-unit price reductions when they buy packages containing multiple units of the same product, such as an eight-pack of canned tuna fish.

Everyday Low Prices (EDLP)

To reduce or eliminate the use of frequent short-term price reductions, some organizations use an approach referred to as **everyday low prices (EDLP)**. With EDLP, a marketer sets a low price for its products on a consistent basis rather than setting higher prices and frequently discounting them. Everyday low prices, though not deeply discounted, are set far enough below competitors' prices to make customers feel confident they are receiving a fair price. EDLP is employed by retailers like Walmart and manufacturers like Procter & Gamble. Indeed, Walmart, which has already trademarked the phrase "Always Low Prices. Always," sought to trademark the acronym EDLP because of its extensive use of the practice. However, vociferous opposition from the National Grocers Association and SuperValu, a supermarket chain, as well as other firms ultimately led Walmart to withdraw its trademark application.²¹ A company that uses EDLP benefits from reduced losses from frequent markdowns, greater stability in sales, and decreased promotional costs.

One of the major problems with EDLP is that customers can respond to it in several different ways. Over the last several years, many marketers have inadvertently "trained" customers to expect and seek out deeply discounted prices. In some product categories, such as apparel, finding the deepest discount has become almost a national consumer sport. Thus, failure to provide deep discounts can be a problem for certain marketers. In some instances, customers simply do not believe everyday low prices are what marketers claim they are but are instead a marketing gimmick.

Odd-Even Pricing

Through **odd-even pricing**—ending the price with certain numbers—marketers try to influence buyers' perceptions of the price or the product. Odd pricing assumes more of a product will be sold at \$99.95 than at \$100. Theoretically, customers will think, or at least tell friends, that the product is a bargain—not \$100, but \$99 and change. Also, customers will supposedly think the store could have charged \$100 but instead cut the price to the last cent, to \$99.95. Some claim, too, that certain types of customers are more attracted by odd prices than by even ones. Researchers have found that women are more likely to respond to odd-ending prices than men are.²² However, research on the effect of odd-even prices has demonstrated conflicting results; one recent study found that odd prices that end in 5 or 9 failed to trigger the threshold of consumer response.²³ Nonetheless, odd prices are far more common today than even prices.

everyday low prices (EDLP)

Pricing products low on a consistent basis

odd-even pricing

Ending the price with certain numbers to influence buyers' perceptions of the price or product



REUTERS/Jim Young/Landov

Everyday Low Prices

Walmart is a major user of everyday low prices.

Even prices are often used to give a product an exclusive or upscale image. An even price supposedly will influence a customer to view the product as being a high-quality, premium brand. A shirt maker, for example, may print on a premium shirt package a suggested retail price of \$42.00 instead of \$41.95; the even price of the shirt is used to enhance its upscale image.

Customary Pricing

With **customary pricing**, certain goods are priced primarily on the basis of tradition. Recent economic uncertainties have made most prices fluctuate fairly widely, but the classic example of the customary, or traditional, price is the price of a candy bar. For years, a candy bar cost 5 cents. A new candy bar would have had to be something very special to sell for more than a nickel. This price was so sacred that rather than change it, manufacturers increased or decreased the size of the candy bar itself as chocolate prices fluctuated. Today, of course, the nickel candy bar has disappeared. However, most candy bars still sell at a consistent, but obviously higher, price. Thus, customary pricing remains the standard for this market.

Prestige Pricing

With **prestige pricing**, prices are set at an artificially high level to convey prestige or a quality image. Prestige pricing is used especially when buyers associate a higher price with higher quality. Pharmacists report that some consumers complain when a prescription does not cost enough; apparently some consumers associate a drug’s price with its potency. Research confirms that many consumers believe a more expensive medicine works better than a less costly one.²⁴

Typical product categories in which selected products are prestige priced include perfumes, liquor, jewelry, and cars. Although appliances have not traditionally been prestige priced, upscale appliances have appeared in recent years to capitalize on the willingness of some consumer segments to “trade up” for high-quality products. These consumers do not mind paying extra for a Subzero refrigerator, a Viking commercial range, or a Whirlpool Duet washer and dryer because these products offer high quality as well as a level of prestige. If these producers lowered their prices dramatically, the new prices would be inconsistent with the perceived high-quality images of their products. From golf clubs to handbags, prestige products are selling at record levels. Consider some of the prestige products shown in Table 13.4 that were selected as the best by *Smart Money* magazine.

PROFESSIONAL PRICING

Professional pricing is used by people who have great skill or experience in a particular field. Professionals often believe their fees (prices) should not relate directly to the time and effort spent in specific cases; rather, a standard fee is charged regardless of the problems involved

customary pricing
Pricing on the basis of tradition

prestige pricing
Setting prices at an artificially high level to convey prestige or a quality image

professional pricing
Fees set by people with great skill or experience in a particular field

TABLE 13.4 Sample Prestige Product Prices

Pearl necklace	Black Baroque Tahitian Pearl Necklace	\$1,400
Men’s casual shoes	Salvatore Ferragamo Lew slip-ons	\$420
Men’s watch	Frederique Constant Maxime Manufacture Automatic	\$2,550
Eco-Lodge vacation	Lapa Rios Eco-Lodge, OSA Peninsula, Costa Rica	\$540/night

Source: “Holiday Gift Guide: The Best of Everything,” *Smart Money*, November 13, 2010, www.smartmoney.com.

in performing the job. Some doctors' and lawyers' fees are prime examples, such as \$75 for an office visit, \$2,000 for an appendectomy, and \$995 for a divorce. Other professionals set prices in other ways. Like other marketers, professionals have costs associated with facilities, labor, insurance, equipment, and supplies. Certainly, costs are considered when setting professional prices.

The concept of professional pricing carries the idea that professionals have an ethical responsibility not to overcharge customers. In some situations, a seller can charge customers a high price and continue to sell many units of the product. Medicine offers several examples. If a person with diabetes requires one insulin treatment per day to survive, she or he will probably buy that treatment whether its price is \$1 or \$10. In fact, the patient will probably purchase the treatment even if the price rose. In these situations, sellers could charge exorbitant fees. Drug companies claim that despite their positions of strength in this regard, they charge ethical prices rather than what the market will bear.

PROMOTIONAL PRICING

As an ingredient in the marketing mix, price is often coordinated with promotion. The two variables are sometimes so closely interrelated that the pricing policy is promotion-oriented. Types of promotional pricing include price leaders, special-event pricing, and comparison discounting.

Price Leaders

Sometimes, a firm prices a few products below the usual markup, near cost, or below cost, which results in prices known as **price leaders**. This type of pricing is used most often in supermarkets and restaurants to attract customers by giving them especially low prices on a few items. Management hopes that sales of regularly priced products will more than offset the reduced revenues from the price leaders.

Special-Event Pricing

To increase sales volume, many organizations coordinate price with advertising or sales promotions for seasonal or special situations. **Special-event pricing** involves advertised sales or price cutting linked to a holiday, a season, or an event. If the pricing objective is survival, special sales events may be designed to generate the necessary operating capital. Special-event

price leaders

A product priced below the usual markup, near cost, or below cost

special-event pricing

Advertised sales or price cutting linked to a holiday, a season, or an event

Emerging Trends in Marketing



New Day, New Deal

Small businesses are getting big attention on "deal-a-day" websites such as Groupon and Group Swoop. The idea is to promote one eye-catching local discount every day, valid only if a minimum number of consumers buy. The deal sites keep a commission on each sale, which entrepreneurs must factor into their pricing plans.

Some small businesses use daily-deal sites to reach new customers. When Mission Minis, a San Francisco bakery, offered a half-price deal on Groupon, more than 3,000 consumers

clicked to buy. This unexpectedly strong response caught the bakery by surprise. Despite the higher costs for additional ingredients and the strain on the workforce, the owner says the deal was worthwhile because many customers came back to buy at full price.

Turning deal-a-day buyers into loyal customers can help a small business move toward future profitability. Endeavor Personal Concierge in Chicago found that 25 percent of its deal-a-day buyers turned into repeat customers, a good deal for all.^d

pricing entails coordination of production, scheduling, storage, and physical distribution. Whenever a sales lag occurs, special-event pricing is an alternative that marketers should consider.

Comparison Discounting

Comparison discounting sets the price of a product at a specific level and simultaneously compares it with a higher price. The higher price may be the product's previous price, the price of a competing brand, the product's price at another retail outlet, or a manufacturer's suggested retail price. Customers may find comparative discounting informative, and it can have a significant impact on their purchases. However, overuse of comparison pricing may reduce customers' internal reference prices, meaning they no longer believe the higher price is the regular or normal price.²⁵

Because this pricing strategy has occasionally led to deceptive pricing practices, the Federal Trade Commission has established guidelines for comparison discounting. If the higher price against which the comparison is made is the price formerly charged for the product, the seller must have made the previous price available to customers for a reasonable period of time. If the seller presents the higher price as the one charged by other retailers in the same trade area, it must be able to demonstrate that this claim is true. When the seller presents the higher price as the manufacturer's suggested retail price, the higher price must be similar to the price at which a reasonable proportion of the product was sold. Some manufacturers' suggested retail prices are so high that very few products are actually sold at those prices. In such cases, comparison discounting would be deceptive. An example of deceptive comparison discounting occurred when a major retailer put 93 percent of its power tools on sale, with discounts ranging from 10 to 40 percent. The retailer's frequent price reductions meant the tools sold at sale prices most of the year. Thus, comparisons with regular prices were deemed to be deceptive.

Determination of a Specific Price

A pricing strategy will yield a certain price, the final step in the process. However, this price may need refinement to make it consistent with circumstances as well as pricing practices in a particular market or industry. Pricing strategies should help in setting a final price. If they are to do so, marketers must establish pricing objectives; have considerable knowledge about target market customers; and determine demand, price elasticity, costs, and competitive factors. Also, the way pricing is used in the marketing mix will affect the final price.

In the absence of government price controls, pricing remains a flexible and convenient way to adjust the marketing mix. In many situations, prices can be adjusted quickly—over a few days or even in minutes. Such flexibility is unique to this component of the marketing mix.

Sale on. Jet off.

New York	from	£315
Miami	from	£370
Orlando	from	£429
Antigua	from	£440
Johannesburg	from	£569
Tokyo	from	£699

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virginatlantic.com

virgin atlantic

Promotional Pricing

In this advertisement, Virgin Airlines offers a limited-time airfare sale.

comparison discounting

Setting a price at a specific level and comparing it with a higher price

CHAPTER REVIEW

1 Describe the six major stages of the process used to establish prices.

The six stages in the process of setting prices are (1) developing pricing objectives, (2) assessing the target market's evaluation of price, (3) evaluating competitors' prices, (4) choosing a basis for pricing, (5) selecting a pricing strategy, and (6) determining a specific price.

2 Explore issues related to developing pricing objectives.

Setting pricing objectives is critical because pricing objectives form a foundation on which the decisions of subsequent stages are based. Organizations may use numerous pricing objectives, including short-term and long-term ones, and different objectives for different products and market segments. Pricing objectives are overall goals that describe the role of price in a firm's long-range plans. There are several major types of pricing objectives. The most fundamental pricing objective is the organization's survival. Price usually can be easily adjusted to increase sales volume or combat competition to help the organization stay alive. Profit objectives, which are usually stated in terms of sales dollar volume or percentage change, are normally set at a satisfactory level rather than at a level designed to maximize profits. A sales growth objective focuses on increasing the profit base by raising sales volume. Pricing for return on investment (ROI) has a specified profit as its objective. A pricing objective to maintain or increase market share links market position to success. Other types of pricing objectives include cash flow, status quo, and product quality.

3 Understand the importance of identifying the target market's evaluation of price.

Assessing the target market's evaluation of price tells the marketer how much emphasis to place on price and may help determine how far above the competition the firm can set its prices. Understanding how important a product is to customers relative to other products, as well as customers' expectations of quality, helps marketers correctly assess the target market's evaluation of price.

4 Examine how marketers analyze competitors' prices.

A marketer needs to be aware of the prices charged for competing brands. This allows the firm to keep its prices in line with competitors' prices when nonprice competition is used. If a company uses price as a competitive tool, it can price its brand below competing brands.

5 Describe the bases used for setting prices.

The three major dimensions on which prices can be based are cost, demand, and competition. When using cost-based pricing, the firm determines price by adding a dollar amount or percentage to the cost of the product. Two common cost-based pricing methods are cost-plus and markup pricing. Demand-based pricing is based on the level of demand for the product. To use this method, a marketer must be able to estimate the amounts of a product buyers will demand at different prices. Demand-based pricing results in a high price when demand for a product is strong and a low price when demand is weak. In the case of competition-based pricing, costs and revenues are secondary to competitors' prices.

6 Explain the different types of pricing strategies.

A pricing strategy is an approach or a course of action designed to achieve pricing and marketing objectives. Pricing strategies help marketers solve the practical problems of establishing prices. The most common pricing strategies are differential pricing, new-product pricing, product-line pricing, psychological pricing, professional pricing, and promotional pricing.

When marketers employ differential pricing, they charge different buyers different prices for the same quality and quantity of products. For example, with negotiated pricing, the final price is established through bargaining between seller and customer. Secondary-market pricing involves setting one price for the primary target market and a different price for another market; often the price charged in the secondary market is lower. Marketers employ periodic discounting when they temporarily lower their prices on a patterned or systematic basis; the reason for the reduction may be a seasonal change, a

model-year change, or a holiday. Random discounting occurs on an unsystematic basis.

Two strategies used in new-product pricing are price skimming and penetration pricing. With price skimming, the organization charges the highest price that buyers who most desire the product will pay. A penetration price is a low price designed to penetrate a market and gain a significant market share quickly.

Product-line pricing establishes and adjusts the prices of multiple products within a product line. This strategy includes captive pricing, in which the marketer prices the basic product in a product line low and prices related items higher; premium pricing, in which prices on higher-quality or more versatile products are set higher than those on other models in the product line; bait pricing, in which the marketer tries to attract customers by pricing an item in the product line low with the intention of selling a higher-priced item in the line; and price lining, in which the organization sets a limited number of prices for selected groups or lines of merchandise.

Psychological pricing attempts to influence customers' perceptions of price to make a product's price more attractive. With reference pricing, marketers price a product at a moderate level and position it next to a more expensive model or brand. Bundle pricing is packaging together two or more complementary products and selling them at a single price. With multiple-unit pricing, two or more identical products are packaged together and sold at a single price. To

reduce or eliminate use of frequent short-term price reductions, some organizations employ everyday low pricing (EDLP), setting a low price for products on a consistent basis. When employing odd-even pricing, marketers try to influence buyers' perceptions of the price or the product by ending the price with certain numbers. Customary pricing is based on traditional prices. With prestige pricing, prices are set at an artificially high level to convey prestige or a quality image.

Professional pricing is used by people who have great skill or experience in a particular field, therefore allowing them to set the price. This concept carries the idea that professionals have an ethical responsibility not to overcharge customers. As an ingredient in the marketing mix, price is often coordinated with promotion. The two variables are sometimes so closely interrelated that the pricing policy is promotion-oriented. Promotional pricing includes price leaders, special-event pricing, and comparison discounting.

Price leaders are products priced below the usual markup, near cost, or below cost. Special-event pricing involves advertised sales or price cutting linked to a holiday, season, or event. Marketers that use a comparison discounting strategy price a product at a specific level and compare it with a higher price.

Once a price is determined by using one or more pricing strategies, it needs to be refined to a final price consistent with the pricing practices in a particular market or industry.

ONLINE RESOURCES

Please visit the student website at www.cengagebrain.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

pricing objectives 366	random discounting 375	bundle pricing 379
cost-based pricing 371	price skimming 376	multiple-unit pricing 379
cost-plus pricing 371	penetration pricing 376	everyday low prices (EDLP) 380
markup pricing 371	product-line pricing 376	odd-even pricing 380
demand-based pricing 372	captive pricing 377	customary pricing 381
competition-based pricing 372	premium pricing 377	prestige pricing 381
differential pricing 374	bait pricing 377	professional pricing 381
negotiated pricing 374	price lining 378	price leaders 382
secondary-market pricing 374	psychological pricing 378	special-event pricing 382
periodic discounting 375	reference pricing 379	comparison discounting 383

ISSUES FOR DISCUSSION AND REVIEW

1. Identify the six stages in the process of establishing prices.
2. How does a return on an investment pricing objective differ from an objective of increasing market share?
3. Why must marketing objectives and pricing objectives be considered when making pricing decisions?
4. Why should a marketer be aware of competitors' prices?
5. What are the benefits of cost-based pricing?
6. Under what conditions is cost-plus pricing most appropriate?
7. A retailer purchases a can of soup for 24 cents and sells it for 36 cents. Calculate the markup as a percentage of cost and as a percentage of selling price.
8. What is differential pricing? In what ways can it be achieved?
9. For what types of products would price skimming be most appropriate? For what types of products would penetration pricing be more effective?
10. Describe bundle pricing, and give three examples using different industries.
11. What are the advantages and disadvantages of using everyday low prices?
12. Why do customers associate price with quality? When should prestige pricing be used?
13. Are price leaders a realistic approach to pricing? Explain your answer.

MARKETING APPLICATIONS

1. Price skimming and penetration pricing are strategies that are commonly used to set the base price of a new product. Which strategy is more appropriate for the following products? Explain.
 - a. Short airline flights between cities in Florida
 - b. A high-definition DVD player
 - c. A backpack or book bag with a lifetime warranty
 - d. Season tickets for a newly franchised NBA basketball team
2. Price lining is used to set a limited number of prices for selected lines of merchandise. Visit a few local retail stores to find examples of price lining. For what types of products and stores is this practice most common? For what types of products and stores is price lining not typical or feasible?
3. Professional pricing is used by people who have great skill in a particular field, such as doctors, lawyers, and business consultants. Find examples (advertisements, personal contacts) that reflect a

professional pricing policy. How is the price established? Are there any restrictions on the services performed at that price?

4. Organizations often use multiple pricing objectives. Locate an organization that uses several pricing objectives, and discuss how this approach influences the company's marketing mix decisions. Are some objectives oriented toward the short term and others toward the long term? How does the marketing environment influence these objectives?

ONLINE EXERCISE

5. T-Mobile has attempted to position itself as a low-cost cellular phone service provider. A person can

purchase a calling plan, a cellular phone, and phone accessories at its website. Visit the T-Mobile website at www.t-mobile.com.

- a. Determine the various nationwide calling rates available in your city.
- b. How many different calling plans are available in your area?
- c. What type of pricing strategy is T-Mobile using on its rate plans in your area?

DEVELOPING YOUR MARKETING PLAN

Setting the right price for a product is a crucial part of marketing strategy. Price helps to establish a product's position in the mind of the consumer and can differentiate a product from its competition. Several decisions in the marketing plan will be affected by the pricing strategy that is selected. To assist you in relating the information in this chapter to the development of your marketing plan, focus on the following:

1. Using Table 13.1 as a guide, discuss each of the seven pricing objectives. Which pricing objectives will you use for your product? Consider the product life cycle, competition, and product positioning for your target market during your discussion.

2. Review the various types of pricing strategies in Table 13.3. Which of these is the most appropriate for your product?
3. Select a basis for pricing your product (cost, demand, and/or competition). How will you know when it is time to revise your pricing strategy?

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

IS SMART CAR'S PRICE SMART?

Tiny car, tiny price tag, tiny gasoline bill. The Smart Car, made by Daimler's Mercedes Car Group in Hambach, France, first appeared on U.S. roads in 2008, just as prices at the gas pump were hitting record highs week after week. The timing could not have been better. Tired of emptying their wallets every time they filled their gas tanks, many U.S. drivers were thinking about downsizing from a big sport-utility vehicle or pickup truck to a smaller vehicle. But were they ready for a 106-inch-long car that seated only two people? Daimler was ready to find out.

The Smart Car had a good track record in other parts of the world. From 1998 to 2008, Daimler sold more than 900,000 Smart Cars in Europe, the Middle East, Asia, Australia, Mexico, and Canada. The car was cute, nimble, and unconventional—a good size for getting through crowded, narrow city streets and fitting into any tight parking spot. Not only was the purchase price highly affordable, but the excellent fuel efficiency made the car especially popular in countries where gas prices were generally high.

To bring the Smart Car to the United States, Daimler redesigned the body and engineering to meet U.S. safety standards. It added six inches to the car's length and included four air bags, an antilock braking system, a collapsing steering column, and other safety features. It also installed a fuel-saving 71-horsepower engine so that the Smart Car would go about 40 highway miles on a gallon of gasoline.

Daimler set the list price of the Smart Fortwo Pure model—the basic version of the two-seater—at \$11,590. The list price of the Smart Fortwo Passion Coupe, equipped with more features, was \$13,590. The list price of the Smart Fortwo Passion Cabriolet, a convertible with leather seats and additional features, was \$16,590. Buyers had the option of ordering extras, like a metallic-paint finish or an alarm system, for an additional fee. Keeping the list price as tiny as the car allowed Daimler to build market share quickly.

Rather than selling Smart Cars through its regular dealer network, Daimler contracted with the Penske Automotive Group to handle distribution and sales. In another unusual move, Daimler set up a website to let buyers reserve the model of their choice and choose from six interior colors and six exterior colors on the car body's removable panels. Three of the exterior colors were offered as part of the purchase price, while the three metallic exterior colors were offered at an extra cost. The \$99 reservation

fee was applied to the buyer's purchase price once the ordered model became available. By the time Smart Cars arrived in U.S. showrooms, 30,000 people had paid for reservations.

To build customer interest prior to the U.S. launch, Daimler sent a number of Smart Cars on a 50-city U.S. tour. Nearly 50,000 members of the media and prospective car buyers took test drives. Although many reporters couldn't resist poking fun at the tiny car (*USA Today* called it a "breadbox on wheels"), they all noted its high fuel efficiency and low purchase price. Initial demand was so strong that even buyers who had reserved their cars well in advance had to wait months for delivery. A few U.S. customers who didn't want to wait paid as much as \$39,000 for European Smart Cars adapted to meet U.S. safety and emissions standards.

Then gasoline prices fell from their record-high levels and the global economy plunged into recession. By 2009, the downturn was so severe that car sales plummeted across the board as U.S. consumers and businesses clamped down on buying. The combination of significantly lower gas prices and a sluggish economy put a serious dent into U.S. sales of the Smart Car. To reignite customer interest, Daimler offered low-interest financing and, for the first time, its U.S. dealers discounted the car's retail price. In 2010, the company also introduced a limited-edition electric Smart Car to appeal to buyers interested in eco-friendly alternatives to traditional gas-driven cars.

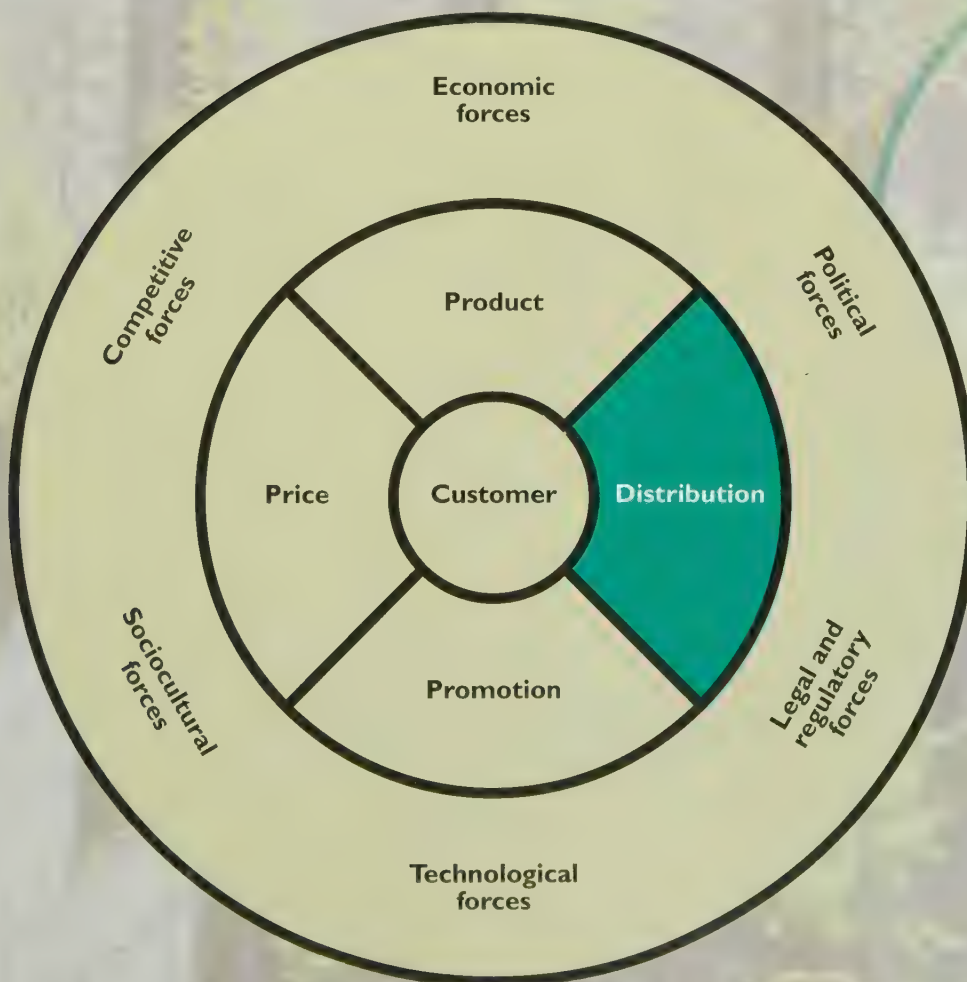
Today, Daimler continues to face intense competition in the small-car segment. Looking ahead, what else can it do to accelerate purchases of its stylish Smart Car without depending on constant discounts, rebates, and other price-cutting measures?²⁶

QUESTIONS FOR DISCUSSION

1. Why is bundle pricing appropriate for the various models of Smart Cars?
2. How is demand likely to affect dealers' willingness to negotiate prices with Smart Car buyers?
3. Imagine that Daimler is considering whether to sell unpainted Smart Cars and reduce the list price by \$1,500. The Smart Car exterior consists of 10 removable panels that can be easily painted. Buyers could paint their own panels, leave the panels unpainted, or pay the dealer an additional fee to personalize their cars by having the panels custom finished in almost any color or design. What are the advantages and disadvantages of this pricing idea?

DISTRIBUTION DECISIONS

Developing products that satisfy customers is important, but it is not enough to guarantee successful marketing strategies. Products must also be available in adequate quantities in accessible locations at the times when customers desire them. Part 6 deals with the distribution of products and the marketing channels and institutions that help to make products available. Chapter 14 discusses supply-chain management, marketing channels, and the decisions and activities associated with the physical distribution of products, such as order processing, materials handling, warehousing, inventory management, and transportation. Chapter 15 explores retailing and wholesaling, including types of retailers and wholesalers, direct marketing and selling, and strategic retailing issues.



CHAPTER 14
Marketing Channels
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Management 390

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Marketing, and
Wholesaling 427

CHAPTER 14

Marketing Channels and Supply-Chain Management

OBJECTIVES:

- 1 Describe the foundations of supply-chain management.
- 2 Explore the role and significance of marketing channels and supply chains.
- 3 Identify types of marketing channels.
- 4 Understand factors that influence marketing channel selection.
- 5 Identify the intensity of market coverage.
- 6 Examine strategic issues in marketing channels, including leadership, cooperation, and conflict.
- 7 Examine physical distribution as a part of supply-chain management.
- 8 Explore legal issues in channel management.



MARKETING INSIGHTS

Dell's Distribution Continues to Evolve

When Michael Dell started his Texas-based computer business in 1984, he chose a distribution strategy that was radically different from that of other computer marketers. Instead of selling through wholesalers and retailers, the company dealt directly with customers to keep costs low and be able to cater to customers' needs by building each computer to order.

Although Dell experimented with retail distribution occasionally, global competition had become so intense by 2007 that the company decided to entirely revamp its channel strategy. Now, Dell sells through Walmart's U.S. stores, Carphone Warehouse's U.K. stores, Bic Camera's Japanese stores, and Gome's Chinese stores. In addition, it has opened Dell stores in several fast-growing markets, such as India.

Still, selling directly to customers remains a top priority. Dell mails millions of catalogs each year and invites orders 24/7 through websites tailored to each target market. It also maintains an online outlet store to sell discontinued and refurbished products and has a sales force for government agencies and big businesses that buy in volume.

Moreover, Dell is a pioneer in engaging customers through social media. It has more than 600,000 fans on Facebook, where it offers steer customers to its various websites. The company's active Twitter presence generated more than \$6 million in sales during the first three years alone. That may be a tiny sliver of Dell's \$61.5 billion in annual revenue, but it demonstrates the company's flexibility in adapting its distribution as customer behavior, competition, and technology change the marketing environment.¹

Decisions like those made by Dell relate to the **distribution** component of the marketing mix, which focuses on the decisions and activities involved in making products available to customers when and where they want to purchase them. Choosing which channels of distribution to use is a major decision in the development of marketing strategies.

In this chapter, we focus on marketing channels and supply-chain management. First, we explore the concept of the supply chain and its various activities. Second, we elaborate on marketing channels and the need for intermediaries and then analyze the primary functions they perform. Next, we outline the types and characteristics of marketing channels, discuss how they are selected, and explore how marketers determine the appropriate intensity of market coverage for a product. We examine the strategic channel issues of leadership, cooperation, and conflict. We also look at the role of physical distribution within the supply chain, including its objectives and basic functions. Finally, we look at several legal issues that affect channel management.

Foundations of the Supply Chain

An important function of distribution is the joint effort of all involved organizations to be part of creating an effective **supply chain**, which refers to all the activities associated with the flow and transformation of products from raw materials through to the end customer. This results in a total distribution system that involves firms that are both “upstream” in the supply chain (e.g., suppliers) and “downstream” (e.g., wholesalers, retailers) to serve customers and generate competitive advantage. Historically, marketing focused on only certain downstream activities of supply chains, but today marketing professionals are recognizing that important marketplace advantages can be secured by effectively integrating important activities in the supply chain. These include operations, logistics, sourcing, and marketing channels. Integrating these activities requires marketing managers to work with their counterparts in operations management, logistics management, and supply management. **Operations management** is the total set of managerial activities used by an organization to transform resource inputs into products, services, or both.² **Logistics management** involves planning, implementing, and controlling the efficient and effective flow and storage of products and information from the point of origin to consumption to meet customers’ needs and wants. In 2010, the costs of the U.S. business logistics system alone equaled about 8.3 percent of the nation’s GDP.³ **Supply management** (e.g., purchasing, procurement, sourcing) in its broadest form refers to the processes that enable the progress of value from raw material to final customer and back to redesign and final disposition.

Supply-chain management is therefore a set of approaches used to integrate the functions of operations management, logistics management, supply management, and marketing channel management so products are produced and distributed in the right quantities, to the right locations, and at the right time. It includes activities such as manufacturing, research, sales, advertising, shipping, and most of all, cooperating and understanding of tradeoffs throughout the whole chain to achieve optimal levels of efficiency and service. The key tasks involved in supply-chain management are outlined in Table 14.1. Supply-chain management also includes suppliers of raw materials and other components to make goods and services, logistics and transportation firms, communication firms, and other firms that indirectly take part in marketing exchanges. Thus, the supply chain includes all entities that facilitate product distribution and benefit from cooperative efforts.

Technology has improved supply-chain management capabilities on a global basis. Information technology in particular has created an almost seamless distribution process

distribution

The decisions and activities that make products available to customers when and where they want to purchase them

supply chain

All the activities associated with the flow and transformation of products from raw materials through to the end customer

operations management

The total set of managerial activities used by an organization to transform resource inputs into products, services, or both

logistics management

Planning, implementing, and controlling the efficient and effective flow and storage of products and information from the point of origin to consumption to meet customers’ needs and wants

supply management

In its broadest form, refers to the processes that enable the progress of value from raw material to final customer and back to redesign and final disposition

supply-chain management

A set of approaches used to integrate the functions of operations management, logistics management, supply management, and marketing channel management so products are produced and distributed in the right quantities, to the right locations, and at the right time

TABLE 14.1 Key Tasks in Supply-Chain Management

Marketing Activities	Sample Activities
Operations management	Organizational and systemwide coordination of operations and partnerships to meet customers' product needs.
Supply management	Sourcing of necessary resources, products, and services from suppliers to support all supply-chain members.
Logistics management	All activities designed to move the product through the marketing channel to the end user, including warehousing and inventory management.
Channel management	All activities related to selling, service, and the development of long-term customer relationships.

for matching inventory needs to manufacturer requirements in the upstream portion of the supply chain and to customers' requirements in the downstream portion of the chain. With integrated information sharing among chain members, costs can be reduced, service can be improved, and increased value can be provided to the end customer. Indeed, information is crucial in operating supply chains efficiently and effectively.

As demand for innovative goods and services has escalated in recent years, marketers have had to increase their flexibility and responsiveness to develop new products and modify existing ones to meet the ever-changing needs of customers. Suppliers now provide material and service inputs to meet customer needs in the upstream portion of the supply chain. Customers are increasingly a knowledge source in developing the right product in the downstream portion of the supply chain. This means that the entire supply chain is critically important in ensuring that customers get the products when, where, and how they want them. Consider the challenge Nike faces with NIKEiD, the company's custom product line that includes shoes, clothing, and equipment. Each product is designed by the customer and must be specially made to their specifications. The product is then transported across the ocean and by land to the customer's home. While Nike does charge a fee for the custom order, ensuring the company's supply chain is flexible enough to handle these orders requires a large investment of time and money.

Firms must therefore be involved in the management of their own supply chains in partnership with the network of upstream and downstream organizations in the supply chain. Upstream firms provide direct or indirect input to make the product. Downstream firms are responsible for delivery of the product and after-market services to the end customers. The management of the upstream and downstream in the supply-chain activities is what is involved in managing supply chains.

Effective supply-chain management is closely linked to a market orientation. All functional areas of business (marketing, management, production, finance, and information systems) are involved in executing a customer orientation and supply-chain management. Both of these activities overlap with operations management, logistics management, and supply management. If a firm has established a marketing strategy based on continuous customer-focused leadership, then supply-chain management will be driven by cooperation and strategic coordination to ensure customer satisfaction. Managers should recognize that supply-chain management is critical to fulfilling customer requirements and requires coordination with all areas of the business. This logical association between market orientation and supply-chain management should lead to increased firm performance.⁴



© Andersen Ross/Getty Images

Technology Facilitates Supply-Chain Management

Technology helps create efficiencies in supply-chain management activities, such as logistics management.

The Role of Marketing Channels in Supply Chains

A **marketing channel** (also called a *channel of distribution* or *distribution channel*) is a group of individuals and organizations that direct the flow of products from producers to customers within the supply chain. The major role of marketing channels—in concert with operations management, logistics management, and supply management—is to make products available at the right time at the right place in the right quantities. Providing customer satisfaction should be the driving force behind marketing channel decisions. Buyers' needs and behavior are therefore important concerns of channel members.

Some marketing channels are direct, meaning that the product goes directly from the producer to the customer. For instance, when a customer orders food online from Omaha Steaks, the product is sent from the manufacturer to the customer. Most channels, however, have one or more **marketing intermediaries** that link producers to other intermediaries or to ultimate consumers through contractual arrangements or through the purchase and reselling of products. Marketing intermediaries perform the activities described in Table 14.2. They also play key roles in customer relationship management, not only through their distribution activities but also by maintaining databases and information systems to help all members of the marketing channel maintain effective customer relationships. For example, eBay serves as a marketing intermediary between Internet sellers and buyers. eBay not only provides a forum for these exchanges but also helps facilitate relationships among eBay channel members and eases payment issues through its PayPal subsidiary.

Wholesalers and retailers are examples of intermediaries. Wholesalers buy and resell products to other wholesalers, retailers, and industrial customers. Retailers purchase products and resell them to the end consumers. Consider your local supermarket, which probably purchased the Tylenol or Advil on its shelves from a wholesaler. The wholesaler purchased that pain medicine, along with other over-the-counter and prescription drugs, from manufacturers such as McNeil Consumer Labs and Whitehall-Robins.

marketing channel

A group of individuals and organizations that direct the flow of products from producers to customers within the supply chain

marketing intermediaries

Middlemen that link producers to other intermediaries or ultimate consumers through contractual arrangements or through the purchase and resale of products

TABLE 14.2 Marketing Channel Activities Performed by Intermediaries

Marketing Activities	Sample Activities
Marketing information	Analyze sales data and other information in databases and information systems. Perform or commission marketing research.
Marketing management	Establish strategic and tactical plans for developing customer relationships and organizational productivity.
Facilitating exchanges	Choose product assortments that match the needs of customers. Cooperate with channel members to develop partnerships.
Promotion	Set promotional objectives. Coordinate advertising, personal selling, sales promotion, publicity, and packaging.
Price	Establish pricing policies and terms of sales.
Physical distribution	Manage transportation, warehousing, materials handling, inventory control, and communication.

Chapter 15 discusses the functions of wholesalers and retailers in marketing channels in greater detail.

Supply chains start with the customer and require the cooperation of channel members to satisfy customer requirements. All members should focus on cooperation to reduce the costs of all channel members and thereby improve profits. For example, some customers prefer to purchase products from companies that have environmentally friendly products or business practices. In response to this, Dell began changing the way it packages its products. The company began using a multipack option for customers who purchase multiple systems at once. In addition, it has been working on making its packages smaller, with stronger but thinner and lighter cushioning. Dell also uses recycled boxes and bamboo packaging, and recently began trying out a new cushion made from a mushroom-based fungus material. By using sustainable packaging materials and reducing the weight and size of its products, the company has been able to reduce its footprint on the world while also saving money on its packaging, transportation, and storage costs.⁵ When the buyer, the seller, marketing intermediaries, and facilitating agencies work together, the cooperative relationship results in compromise and adjustments that meet customers' needs regarding delivery, scheduling, packaging, or other requirements.

Each supply-chain member requires information from other channel members. For instance, suppliers need order and forecast information from the manufacturer; they also may need availability information from their own suppliers. Customer relationship management (CRM) systems exploit the information from supply-chain partners' information systems to help all channel members make marketing strategy decisions that develop and sustain desirable customer relationships. Thus, managing relationships with supply-chain partners is crucial to satisfying customers. CRM is gaining popularity, with companies such as Hewlett-Packard and Amazon.com spending large sums of money on implementation and support for data mining and CRM analytical applications.

THE SIGNIFICANCE OF MARKETING CHANNELS

Although marketing channel decisions do not have to precede other marketing decisions, they are a powerful influence on the rest of the marketing mix (i.e., product, promotion, and pricing).



Marketing Intermediaries

Drug stores create value by providing a variety of products to customers.

Lisa Quinones/Newscom

Channel decisions are critical because they determine a product's market presence and buyers' accessibility to the product. Without effective marketing channel operations, even the best goods and services will not be successful. Consider that small businesses are more likely to purchase computers from chain specialty stores such as Best Buy and Office Depot, putting computer companies without distribution through these outlets at a disadvantage. In fact, even Dell—which pioneered the direct-sales model in the computer industry—is now selling its computers at Best Buy. The option of buying Dell systems directly from Dell or in retail stores such as Best Buy means that customers can purchase what they need when and where they want while also allowing customers to “test drive” a computer system of their choice.

Marketing channel decisions have additional strategic significance because they generally entail long-term commitments among a variety of firms (e.g., suppliers, logistics providers, and operations firms). It is usually easier to change prices or promotional strategies than to change marketing channels. Marketing channels also serve many functions, including creating utility and facilitating exchange efficiencies. Although some of these functions may be performed by a single channel member, most functions are accomplished through both independent and joint efforts of channel members.

Marketing Channels Create Utility

Marketing channels create four types of utility: time, place, possession, and form. *Time utility* is having products available when the customer wants them. Services like Movies On Demand allow customers to watch a movie whenever they want, unlike most video stores that are not open 24 hours. *Place utility* is created by making products available in locations where customers wish to purchase them. For example, a bowling alley that has a vending machine with socks allows customers who did not bring socks to purchase a pair without leaving the facility. *Possession utility* means that the customer has access to the product to use or to store for future use. Possession utility can occur through ownership or through arrangements that give the customer the right to use the product, such as a lease or rental agreement. Channel members sometimes create *form utility* by assembling, preparing, or otherwise refining the product to suit individual customer needs.

Marketing Channels Facilitate Exchange Efficiencies

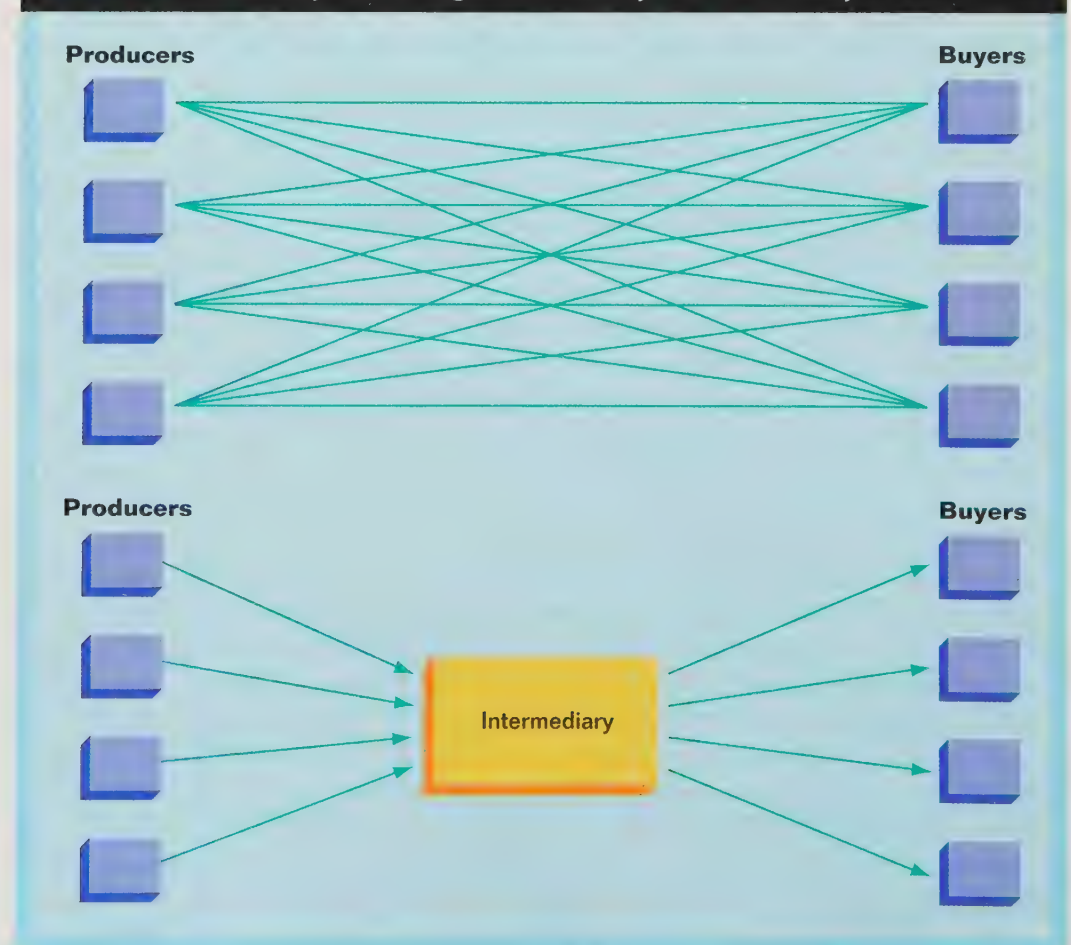
Marketing intermediaries can reduce the costs of exchanges by performing certain services or functions efficiently. Even if producers and buyers are located in the same city, there are costs associated with exchanges. As Figure 14.1 shows, when four buyers seek products from four producers, 16 transactions are possible. If one intermediary serves both producers and buyers, the number of transactions can be reduced to eight. Intermediaries are specialists in facilitating exchanges. They provide valuable assistance because of their access to and control over important resources used in the proper functioning of marketing channels.

Nevertheless, the press, consumers, public officials, and even other marketers freely criticize intermediaries, especially wholesalers. Critics accuse wholesalers of being inefficient and parasitic. Buyers often wish to make the distribution channel as short as possible, assuming the fewer the intermediaries, the lower the price will be.

Critics who suggest that eliminating wholesalers would lower customer prices fail to recognize that this would not eliminate the need for the services the wholesalers provide. Although wholesalers can be eliminated, their functions cannot. Other channel members would have to perform those functions, and customers still would have to pay for them. In addition, all producers would have to deal directly with retailers or customers, meaning that every producer would have to keep voluminous records and hire enough personnel to deal with a multitude of customers. Customers might end up paying a great deal more for products because prices would reflect the costs of less-efficient channel members.

Because suggestions to eliminate wholesalers come from both ends of the marketing channel, wholesalers must be careful to perform only those marketing activities that are truly desired. To survive, they must be more efficient and more customer-focused than other marketing

FIGURE 14.1 Efficiency in Exchanges Provided by an Intermediary



institutions. Indeed, research suggests that lower wholesale prices may result in higher sales volume when combined with low retailing costs at discount firms such as Walmart.⁶

TYPES OF MARKETING CHANNELS

Because marketing channels that are appropriate for one product may be less suitable for others, many different distribution paths have been developed. The various marketing channels can be classified generally as channels for consumer products and channels for business products.

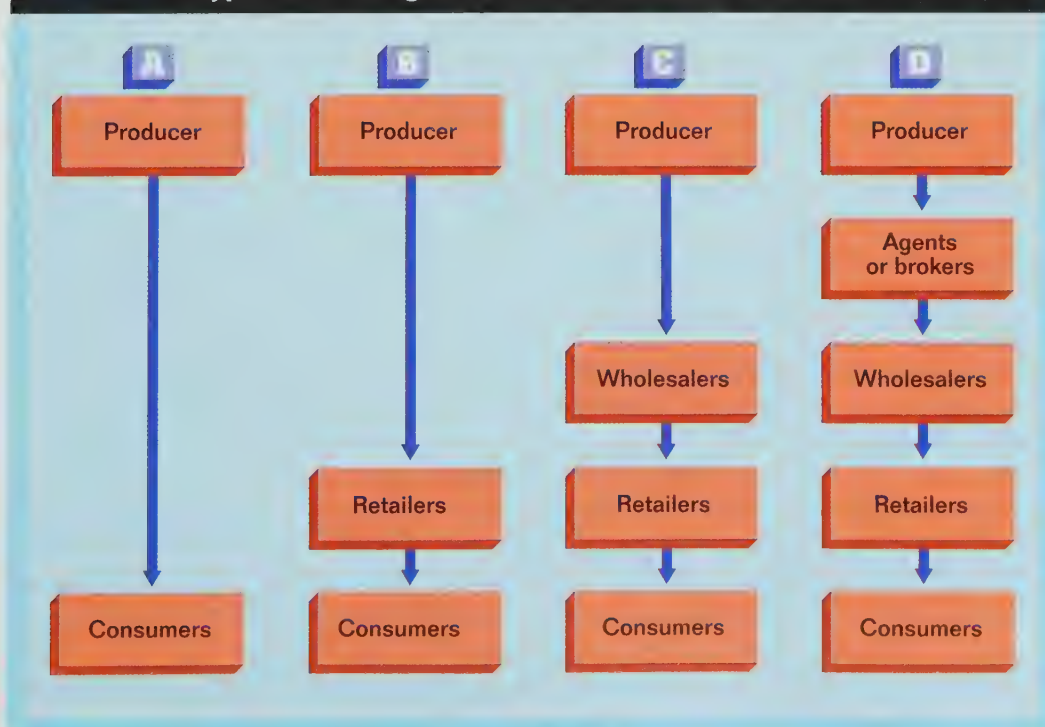
Channels for Consumer Products

Figure 14.2 illustrates several channels used in the distribution of consumer products. Channel A depicts the direct movement of products from producer to consumers. For instance, the legal advice given by attorneys moves through channel A. Producers that sell products directly from their factories to end users use direct marketing channels, as do companies that sell their own products via the Internet, such as Omaha Steaks. Direct marketing via the Internet has become a critically important part of some companies' distribution strategies, often as a complement to their products being sold in traditional retail stores. Faced with the strategic choice of going directly to the customer or using intermediaries, a firm must evaluate the benefits of going direct versus the transaction costs involved in using intermediaries.

Channel B, which moves goods from the producer to a retailer and then to customers, is a frequent choice of large retailers because it allows them to buy in quantity from manufacturers. Retailers such as Kmart and Walmart sell clothing, stereos, and many other items purchased directly from producers. New automobiles and new college textbooks are also sold through this type of marketing channel. Primarily nonstore retailers, such as L.L. Bean and J. Crew, also use this type of channel.

Channel C represents a long-standing distribution channel, especially for consumer products. It takes goods from the producer to a wholesaler, then to a retailer, and finally to consumers. It is a practical option for producers that sell to hundreds of thousands of customers through thousands of retailers. Consider the number of retailers marketing Wrigley's

FIGURE 14.2 Typical Marketing Channels for Consumer Products



Types of Marketing Channels

Large retailers, like Target, buy directly from producers, rather than buying from wholesalers. These large retailers participate in channel B.



Armando Arizto/PI/Landov

chewing gum. It would be extremely difficult, if not impossible, for Wrigley to deal directly with each retailer that sells its brand of gum. Manufacturers of tobacco products, some home appliances, hardware, and many convenience goods sell their products to wholesalers, which then sell to retailers, which in turn do business with individual consumers.

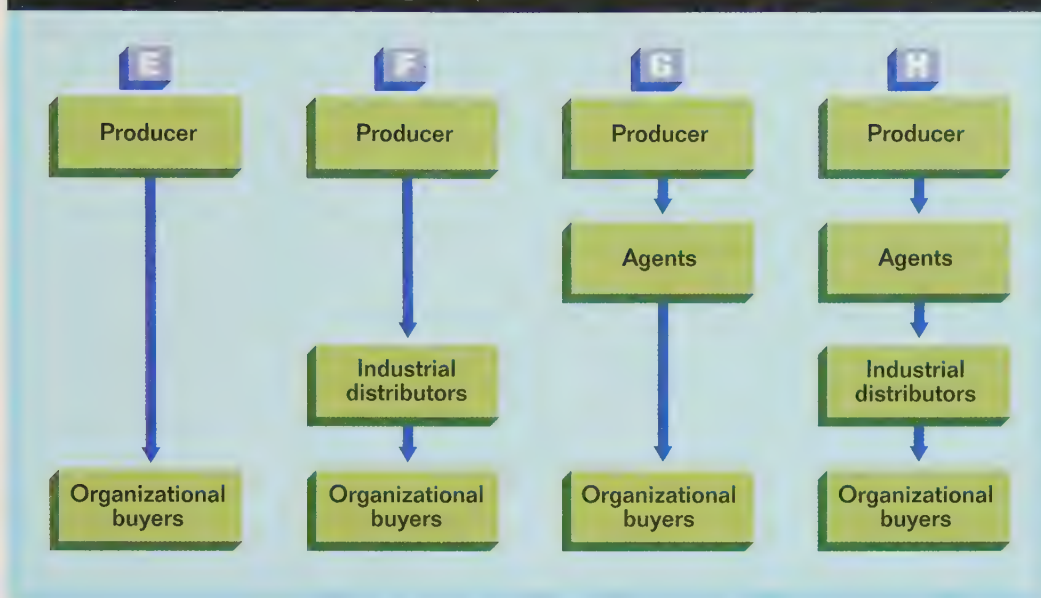
Channel D, through which goods pass from producer to agents to wholesalers to retailers and then to consumers, is used frequently for products intended for mass distribution, such as processed foods. For example, to place its cracker line in specific retail outlets, a food processor may hire an agent (or a food broker) to sell the crackers to wholesalers. Wholesalers then sell the crackers to supermarkets, vending machine operators, and other retail outlets.

Contrary to popular opinion, a long channel may be the most efficient distribution channel for some consumer goods. When several channel intermediaries perform specialized functions, costs may be lower than when one channel member tries to perform them all. In essence, this logic is similar to outsourcing part of the production to firms in low-cost countries. For the marketing channel, it means that firms that specialize in certain elements of producing a product or moving it through the channel are more effective and efficient at performing specialized tasks than the manufacturer. This results in cost efficiencies and added value to customers.

Channels for Business Products

Figure 14.3 shows four of the most common channels for business products. As with consumer products, manufacturers of business products sometimes work with more than one level of wholesalers.

Channel E illustrates the direct channel for business products. In contrast to consumer goods, more than half of all business products, especially expensive equipment, are sold through direct channels. Business customers prefer to communicate directly with producers, especially when expensive or technically complex products are involved. For instance, buyers prefer to purchase expensive and highly complex SQL server computers directly from Dell. Similarly, Intel has established direct marketing channels for selling its microprocessor chips to computer manufacturers. In these circumstances, a customer wants the technical assistance and personal assurances that only a producer can provide.

FIGURE 14.3 Typical Marketing Channels for Business Products

In channel F, an industrial distributor facilitates exchanges between the producer and the customer. An **industrial distributor** is an independent business that takes title to products and carries inventories. Industrial distributors usually sell standardized items such as maintenance supplies, production tools, and small operating equipment. Some industrial distributors carry a wide variety of product lines. W.W. Grainger, for example, sells more than \$7 billion worth of power and hand tools, pumps, janitorial supplies, and many other products to producer, government, and institutional markets around the world.⁷ Other industrial distributors specialize in one or a small number of lines. Industrial distributors are carrying an increasing percentage of business products. Overall, these distributors can be most effectively used when a product has broad market appeal, is easily stocked and serviced, is sold in small quantities, and is needed on demand to avoid high losses.

Industrial distributors offer sellers several advantages. They can perform the needed selling activities in local markets at a relatively low cost to a manufacturer and reduce a producer's financial burden by providing customers with credit services. Also, because industrial distributors usually maintain close relationships with their customers, they are aware of local needs and can pass on market information to producers. By holding adequate inventories in their local markets, industrial distributors reduce producers' capital requirements.

Using industrial distributors has several disadvantages, however. Industrial distributors may be difficult to control because they are independent firms. They often stock competing brands, so a producer cannot depend on them to sell its brand aggressively. Furthermore, because industrial distributors maintain inventories, they incur numerous expenses; consequently, they are less likely to handle bulky or slow-selling items or items that need specialized facilities or extraordinary selling efforts. In some cases, industrial distributors lack the technical knowledge necessary to sell and service certain products.

The third channel for business products, channel G, employs a *manufacturers' agent*, an independent businessperson who sells complementary products of several producers in assigned territories and is compensated through commissions. Unlike an industrial distributor, a manufacturers' agent does not acquire title to the products and usually does not take possession. Acting as a salesperson on behalf of the producers, a manufacturers' agent has little or no latitude in negotiating prices or sales terms.

Using manufacturers' agents can benefit an organizational marketer. These agents usually possess considerable technical and market information and have an established set of customers. For an organizational seller with highly seasonal demand, a manufacturers' agent

industrial distributor

An independent business organization that takes title to industrial products and carries inventories.

can be an asset because the seller does not have to support a year-round sales force. The fact that manufacturers' agents are typically paid on a commission basis may also be an economical alternative for a firm that has highly limited resources and cannot afford a full-time sales force.

The use of manufacturers' agents is not problem-free. Even though straight commissions may be more financially viable, the seller may have little control over manufacturers' agents. Because of the compensation method, manufacturers' agents generally prefer to concentrate on their larger accounts. They are often reluctant to spend time following up sales, putting forth special selling efforts, or providing sellers with market information when such activities reduce the amount of productive selling time. Because they rarely maintain inventories, manufacturers' agents have a limited ability to provide customers with parts or repair services quickly.

Finally, channel H includes both a manufacturers' agent and an industrial distributor. This channel may be appropriate when the producer wishes to cover a large geographic area but maintains no sales force due to highly seasonal demand or because it cannot afford a sales force. This type of channel can also be useful for a business marketer that wants to enter a new geographic market without expanding its existing sales force.

Multiple Marketing Channels and Channel Alliances

To reach diverse target markets, manufacturers may use several marketing channels simultaneously, with each channel involving a different group of intermediaries. In particular, a manufacturer often uses multiple channels when the same product is directed to both consumers and business customers. For example, when Del Monte markets ketchup for household use, the product is sold to supermarkets through grocery wholesalers or, in some cases, directly to retailers, whereas ketchup being sold to restaurants or institutions follows a different distribution channel.

In some instances, a producer may prefer **dual distribution**, the use of two or more marketing channels to distribute the same products to the same target market. For instance, Kellogg sells its cereals directly to large retail grocery chains (channel B) and to food wholesalers that, in turn,

dual distribution

The use of two or more marketing channels to distribute the same products to the same target market

Using Multiple Marketing Channels

Dunkin' Donuts coffee products are available at company stores and in select grocery stores.



sell the cereals to retailers (channel C). Another example of dual distribution is a firm that sells products through retail outlets and its own mail-order catalog or website. P&G decided to expand its distribution strategy, which until recently included selling to wholesalers and retailers, to the Internet. In 2010 the company opened an eStore where customers could purchase all of their favorite P&G brands, including Tide, Pampers, and Pantene, directly from the company online.⁸

Dual distribution, however, can cause dissatisfaction among wholesalers and smaller retailers when they must compete with large retail grocery chains that make direct purchases from manufacturers such as Kellogg. State Farm Insurance avoids some of this dissatisfaction by maintaining its “old” business model of using agents as the primary vehicle for customer interaction, although this decision may cause the company to potentially lose sales to other insurance companies by not offering insurance policies online as others, such as Progressive, do.

A **strategic channel alliance** exists when the products of one organization are distributed through the marketing channels of another. The products of the two firms are often similar with respect to target markets or uses, but they are not direct competitors. A brand of bottled water might be distributed through a marketing channel for soft drinks, or a domestic cereal producer might form a strategic channel alliance with a European food processor. Such alliances can provide benefits for both the organization that owns the marketing channel and the company whose brand is being distributed through the channel.

SELECTING MARKETING CHANNELS

Selecting appropriate marketing channels is important. Although the process varies across organizations, channel selection decisions usually are significantly affected by one or more of the following factors: customer characteristics, product attributes, type of organization, competition, marketing environmental forces, and characteristics of intermediaries (see Figure 14.4).

strategic channel alliance

An agreement whereby the products of one organization are distributed through the marketing channels of another

FIGURE 14.4 Selecting Marketing Channels



Customer Characteristics

Marketing managers must consider the characteristics of target-market members in channel selection. As we have already seen, the channels that are appropriate for consumers are different from those for business customers. A different marketing channel will be required for business customers purchasing carpet for commercial buildings compared with consumers purchasing carpet for their homes. Business customers often prefer to deal directly with producers (or very knowledgeable channel intermediaries such as industrial distributors), especially for highly technical or expensive products such as mainframe computers, jet airplanes, and large mining machines. Moreover, business customers are more likely to buy complex products that require strict specifications and technical assistance or to buy in considerable quantities.

Consumers, on the other hand, generally buy limited quantities of a product, purchase from retailers, and often do not mind limited customer service. Additionally, when customers are concentrated in a small geographic area, a more direct channel may be ideal, but when many customers are spread across an entire state or nation, distribution through multiple intermediaries is likely to be more efficient.

Product Attributes

The attributes of the product can have a strong influence on the choice of marketing channels. Marketers of complex and expensive products such as automobiles likely will employ short channels, as will marketers of perishable products such as dairy and produce. Less-expensive, more standardized products such as soft drinks and canned goods can employ longer channels with many intermediaries. In addition, channel decisions may be affected by a product's sturdiness:

fragile products that require special handling are more likely to be distributed through shorter channels to minimize the risk of damage. Firms that desire to convey an exclusive image for their products may wish to limit the number of outlets available.

Entrepreneurship in Marketing



A Candy Bar, a Gold Bar, or a Diaper?

Entrepreneurs are using vending machines to distribute all kinds of merchandise, from gold bars and GPS equipment to milk and medicine. Now, two Minnesota moms have started Diaper Bag Basics, a company that uses vending machines to sell diapers and other baby basics at the Maplewood Mall in St. Paul, Minnesota.

The co-owners, Stephanie Hughes and Jennifer Boog, came up with the idea after they ran out of diapers while shopping with their infants. Realizing that other parents may have the same experience, the entrepreneurs approached Innovative Vending Solutions, an Ohio-based firm, to discuss the idea of a vending machine for baby products. Innovative Vending had already installed a similar vending machine in Kansas City, so it had the expertise to help the entrepreneurs make their idea a reality.

Today, Diaper Bag Basics stocks a variety of baby items in its vending machines, including bottles, wipes, sippy cups, and hand sanitizer, ready whenever parents need to make a spur-of-the-moment purchase.^a

Type of Organization

Clearly, the characteristics of the organization will have a great impact on the distribution channels chosen. Owing to their sheer size, larger firms may be able to negotiate better deals with vendors or other channel members. Compared with small firms, they may be in a better position to have more distribution centers, which may reduce delivery times to customers. A smaller regional company that uses regional or local channel members may be in a position to better serve customers in that region compared with a larger, less-flexible organization. Compared with smaller organizations, large companies can use an extensive product mix as a competitive tool. Smaller firms may not have the resources to develop their own sales force, ship their products long distances, store or own products, or extend credit. In such cases, they may have to include other channel members that have the resources to provide these services to customers efficiently and cost effectively.

Competition

Competition is another important factor for supply-chain managers to consider. The success or failure of a competitor's marketing channel may encourage or dissuade an organization from considering a similar approach. A firm also may be forced to

adopt a similar strategy to remain competitive. In a highly competitive market, it is important for a company to keep its costs low so it can offer lower prices than its competitors if necessary.

Environmental Forces

Environmental forces also can play a role in channel selection. Adverse economic conditions might force an organization to use a low-cost channel, even though customer satisfaction is reduced. In contrast, a booming economy might allow a company to choose a channel that previously had been too costly to consider. The introduction of new technology might cause an organization to add or modify its channel strategy. For instance, as the Internet became a powerful marketing communication tool, many companies were forced to go online to remain competitive. Government regulations also can affect channel selection. As new labor and environmental regulations are passed, an organization may be forced to modify its existing distribution channel structure. Firms may choose to make the changes before regulations are passed to appear compliant or to avoid legal issues. Governmental regulations also can include trade agreements with other countries that complicate the supply chain.

Characteristics of Intermediaries

When an organization believes that a current intermediary is not promoting the organization's products adequately, it may reconsider its channel choices. In these instances, the company may choose another channel member to handle its products, or it may choose to eliminate intermediaries altogether and perform the eliminated intermediaries' functions itself. Alternatively, an existing intermediary may not offer an appropriate mix of services, forcing an organization to switch to another intermediary.

Intensity of Market Coverage

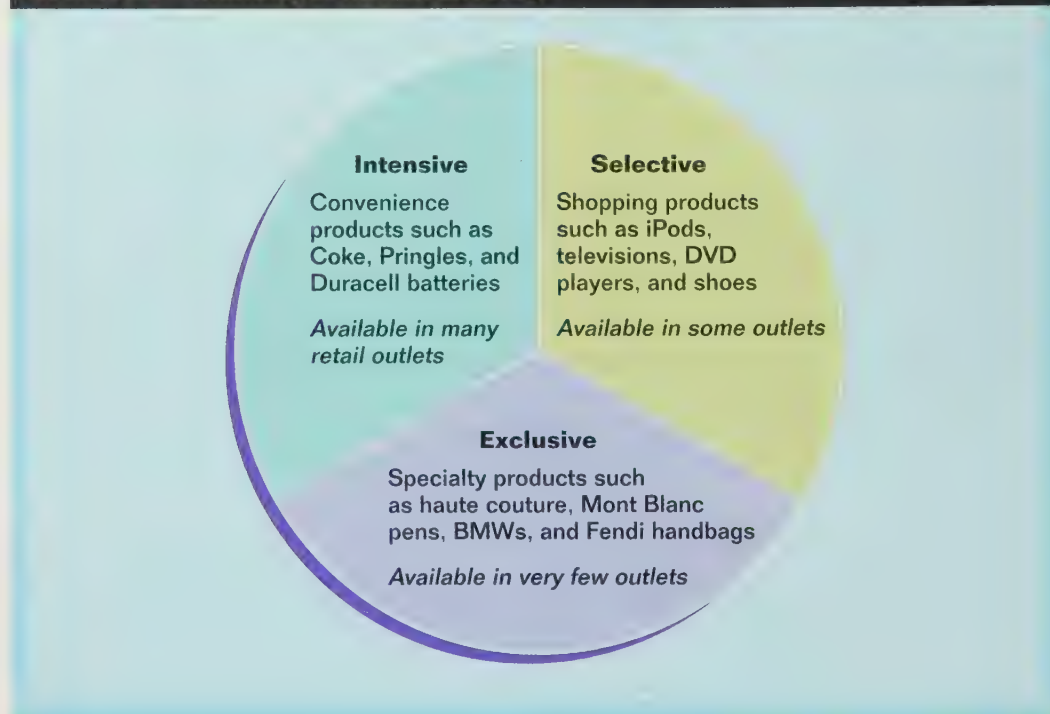
In addition to deciding which marketing channels to use to distribute a product, marketers must determine the intensity of coverage that a product should get—that is, the number and kinds of outlets in which it will be sold. This decision depends on the characteristics of the product and the target market. To achieve the desired intensity of market coverage, distribution must correspond to behavior patterns of buyers. In Chapter 10, we divided consumer products into four categories—convenience products, shopping products, specialty products, and unsought products—according to how consumers make purchases. In considering products for purchase, consumers take into account replacement rate, product adjustment (services), duration of consumption, time required to find the product, and similar factors.⁹ These variables directly affect the intensity of market coverage. As shown in Figure 14.5, the three major levels of market coverage are intensive, selective, and exclusive distribution.

INTENSIVE DISTRIBUTION

Intensive distribution uses all available outlets for distributing a product. Intensive distribution is appropriate for most convenience products such as bread, chewing gum, soft drinks, and newspapers. Convenience products have a high replacement rate, require almost no service, and are often bought based on price cues. To meet these demands, intensive distribution is necessary, and multiple channels may be used to sell through all possible outlets. For example, soft drinks, snacks, laundry detergent, and pain relievers are available at convenience stores, service stations, supermarkets, discount stores, and other types of retailers. To consumers, availability means a store is located nearby, and minimum time is necessary to search for the product at the store. This ensures that consumers are provided with the greatest speed in obtaining the

intensive distribution

Using all available outlets to distribute a product

FIGURE 14.5 Intensity of Market Coverage

product, the quality they have come to expect of a certain convenience product, the flexibility to buy the product wherever it is convenient to them, and the lowest cost possible.

Sales may have a direct relationship to product availability. The successful sale of convenience products such as bread and milk at service stations or gasoline at convenience grocery stores illustrates that the availability of these products is more important than the nature of the outlet. Companies such as Procter & Gamble that produce consumer packaged items rely on intensive distribution for many of their products (e.g., soaps, detergents, food and juice products, and personal-care products) because consumers want ready availability.

SELECTIVE DISTRIBUTION

Selective distribution uses only some available outlets in an area to distribute a product. Selective distribution is appropriate for shopping products; durable goods such as televisions, stereos, and home computers usually fall into this category. These products are more expensive than convenience goods, and consumers are willing to spend more time visiting several retail outlets to compare prices, designs, styles, and other features.

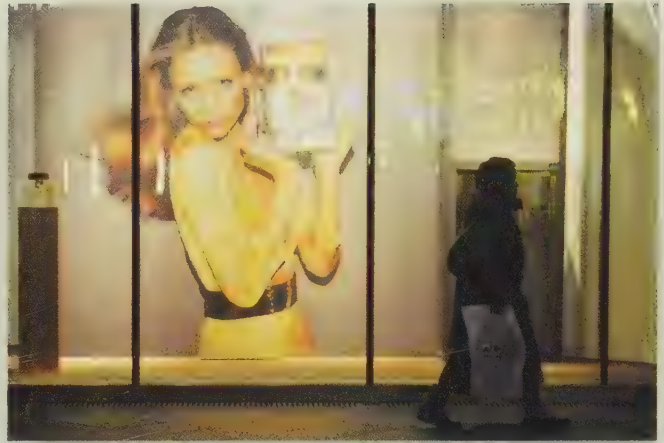
Selective distribution is desirable when a special effort, such as customer service from a channel member, is important to customers. Shopping products require differentiation at the point of purchase. To motivate retailers to provide adequate presale service, selective distribution and company-owned stores are often used. Many business products are sold on a selective basis to maintain control over the products—for example, in cases where dealers must offer services to buyers such as instructions about how to apply herbicides safely or the option to have the dealer apply the herbicide. Other examples include the launch of Apple's iPhone, distributed in AT&T and Apple retail stores in the United States, and perfumes distributed through large department and specialty perfume stores. The majority of perfumes and colognes use selective distribution in order to maintain a particular image. For example, eBay was recently fined by a Parisian court for selling certain brands of perfume on its website that include Christian Dior, Givenchy, and Kenzo. These companies are trying to protect their brand's image by only selling through select retail outlets.¹⁰

selective distribution

Using only some available outlets in an area to distribute a product



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Comparing Intensive and Exclusive Distribution

Products sold in convenience stores are distributed through intensive distribution. Gucci products are sold through exclusive distribution.

EXCLUSIVE DISTRIBUTION

Exclusive distribution uses only one outlet in a relatively large geographic area. Exclusive distribution is suitable for products purchased infrequently, consumed over a long period of time, or requiring service or information to fit them to buyers' needs. It is also used for expensive, high-quality products, such as Porsche, BMW, and other luxury automobiles. It is not appropriate for convenience products and many shopping products.

Exclusive distribution is often used as an incentive to sellers when only a limited market is available for products. Consider Patek Philippe watches that may sell for \$10,000 or more. These watches, like luxury automobiles, are available in only a few select locations. A producer using exclusive distribution generally expects dealers to carry a complete inventory, send personnel for sales and service training, participate in promotional programs, and provide excellent customer service. Some products are appropriate for exclusive distribution when first introduced, but as competitors enter the market and the product moves through its life cycle, other types of market coverage and distribution channels often become necessary. A problem that can arise with exclusive distribution (and selective distribution) is that unauthorized resellers acquire and sell products, violating the agreement between a manufacturer and its exclusive authorized dealers. This has been a problem for Rolex, a manufacturer of luxury watches.

Strategic Issues in Marketing Channels

To fulfill the potential of effective supply-chain management and to ensure customer satisfaction, marketing channels require a strategic focus on certain competitive priorities and the development of channel leadership, cooperation, and the management of channel conflict. They may also require consolidation of marketing channels through channel integration.

COMPETITIVE PRIORITIES IN MARKETING CHANNELS

Much evidence exists that supply chains can provide a competitive advantage for many marketers. As mentioned earlier, effective supply-chain management has been linked to a market orientation. Because supply-chain decisions cut across all functional areas of the business,

exclusive distribution

Using a single outlet in a fairly large geographic area to distribute a product

it is a competitive priority. Building the most effective and efficient supply chain can sustain a business in a variety of competitive environments.

It is estimated that a significant supply-chain problem can reduce a firm's market value by more than 10 percent. Deloitte has reported that just 7 percent of companies today are managing their supply chains effectively; however, these companies are 73 percent more profitable than other firms. Many well-known firms, including Amazon.com, Dell, FedEx, Toyota, and Walmart, owe much of their success to outmaneuvering rivals with unique supply-chain capabilities.

If supply-chain activities are not integrated, functions exist without coordination. As supply chains integrate functions, the reward is efficiency and effectiveness as well as a holistic view of the supply chain. Goal-driven supply chains, by direction of their firms, focus on the "competitive priorities" of speed, quality, cost, or flexibility as the performance objective. For example, before Domino's got into legal trouble for its 30-minute-or-free promise for pizza deliveries, speed was its main concern. The quality, cost, and the variety of toppings on the pizza were secondary to the time it took to get a hot pizza delivered to the customer's door. Other companies (e.g., Rolls Royce) focus on different competitive priorities, such as delivering top-notch quality products, where neither cost nor speed is an issue. Rolls Royce, however, still stresses certain flexibility in the product customization. Walmart is the poster example of stressing low cost, often at the "cost" of speed, quality, and flexibility. Yet, some firms thrive on being flexible. For instance, L.L.Bean provides almost endless flexibility, particularly in return policies. However, very few L.L.Bean stores exist, so customers may receive products at a slower speed than they do from other competitors. Cost is higher than the industry average, but their products are usually of high quality.

CHANNEL LEADERSHIP, COOPERATION, AND CONFLICT

Each channel member performs a different role in the distribution system and agrees (implicitly or explicitly) to accept certain rights, responsibilities, rewards, and sanctions for nonconformity. Moreover, each channel member holds certain expectations of other channel members. Retailers, for instance, expect wholesalers to maintain adequate inventories and deliver goods on time. Wholesalers expect retailers to honor payment agreements and keep them informed of inventory needs.

Channel partnerships facilitate effective supply-chain management when partners agree on objectives, policies, and procedures for physical distribution efforts associated with the supplier's products. Such partnerships eliminate redundancies and reassign tasks for maximum systemwide efficiency.

One of the best-known partnerships is that between Walmart and Procter & Gamble. Procter & Gamble locates some of its staff near Walmart's purchasing department in Bentonville, Arkansas, to establish and maintain the supply chain. Sharing information through a cooperative information system, P&G monitors Walmart's inventory and additional data to determine production and distribution plans for its products. The results are increased efficiency, decreased inventory costs, and greater satisfaction for the customers of both companies. In this section, we discuss channel member behavior—including leadership, cooperation, and conflict—that marketers must understand to make effective channel decisions.



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Channel Leadership

Dell provides channel leadership in the distribution of its products.

Green Marketing



Putting Channel Power to Work for Sustainability

Food retailers such as Whole Foods Market, Trader Joe's, and Safeway are putting their channel power to work for sustainability. Trader Joe's only stocks fresh seafood products from sustainable sources due to concerns about overfishing and the environmental impact of fishing. Whole Foods labels all the wild-caught seafood it carries, in association with the Monterey Bay Aquarium and the Blue Ocean Institute, to support sustainability and help consumers make informed choices. These retailers, as well as Safeway and other supermarkets, publicize their green supply-chain policies to let suppliers and customers know about their commitment.

Packaging is another concern. To avoid the environmental impact of throw-away containers, Waitrose and Sainsbury's, two major U.K. grocery chains, have begun selling milk in refillable jugs.

Industry groups are helping food retailers of all sizes identify green opportunities throughout the marketing channel. The Food Marketing Institute, for example, offers a variety of reports and online tools, including an online carbon footprint calculator (see www.fmi.org/sustainability/).^b

Channel Leadership

Many marketing channel decisions are determined by give-and-take among channel partners, with the idea that the overall channel ultimately will benefit. Some marketing channels, however, are organized and controlled by a single leader, or **channel captain** (also called *channel leader*). The channel captain may be a producer, wholesaler, or retailer. Channel captains may establish channel policies and coordinate development of the marketing mix. Walmart, for example, dominates the supply chain for its retail stores by virtue of the magnitude of its resources (especially information management) and strong, nationwide customer base. To attain desired objectives, the captain must possess **channel power**, the ability to influence another channel member's goal achievement. The member that becomes the channel captain will accept the responsibilities and exercise the power associated with this role.

When a manufacturer's large-scale production efficiency demands that it increase sales volume, the manufacturer may exercise power by giving channel members financing, business advice, ordering assistance, advertising services, sales and service training, and support materials. For example, U.S. automakers provide these services to retail automobile dealerships. However, these manufacturers also place numerous requirements on their retail dealerships with respect to sales volume, sales and service training, and customer satisfaction.

Retailers may also function as channel captains. With the rise in power of national chain stores and private-brand merchandise, many large retailers such as Walmart are taking a leadership role in the channel. Small retailers too may assume leadership roles when they gain strong customer loyalty in local or regional markets. These retailers control many brands and sometimes replace uncooperative producers. Increasingly, leading retailers are concentrating their buying power with fewer suppliers and, in the process, improving their marketing effectiveness and efficiency. Long-term commitments enable retailers to place smaller and more frequent orders as needed rather than waiting for large-volume discounts or placing huge orders and assuming the risks associated with carrying a larger inventory.

Wholesalers assume channel leadership roles as well, although they were more powerful decades ago, when many manufacturers and retailers were smaller, underfinanced, and widely scattered. Today, wholesaler leaders may form voluntary chains with several retailers, which they supply with bulk buying or management services; these chains may also market

channel captain

The dominant leader of a marketing channel or a supply channel

channel power

The ability of one channel member to influence another member's goal achievement

their own brands. In return, the retailers shift most of their purchasing to the wholesaler leader. The Independent Grocers' Alliance (IGA) is one of the best-known wholesaler leaders in the United States. IGA's power is based on its expertise in advertising, pricing, and purchasing knowledge that it makes available to independent business owners. Other wholesaler leaders help retailers with store layouts, accounting, and inventory control.

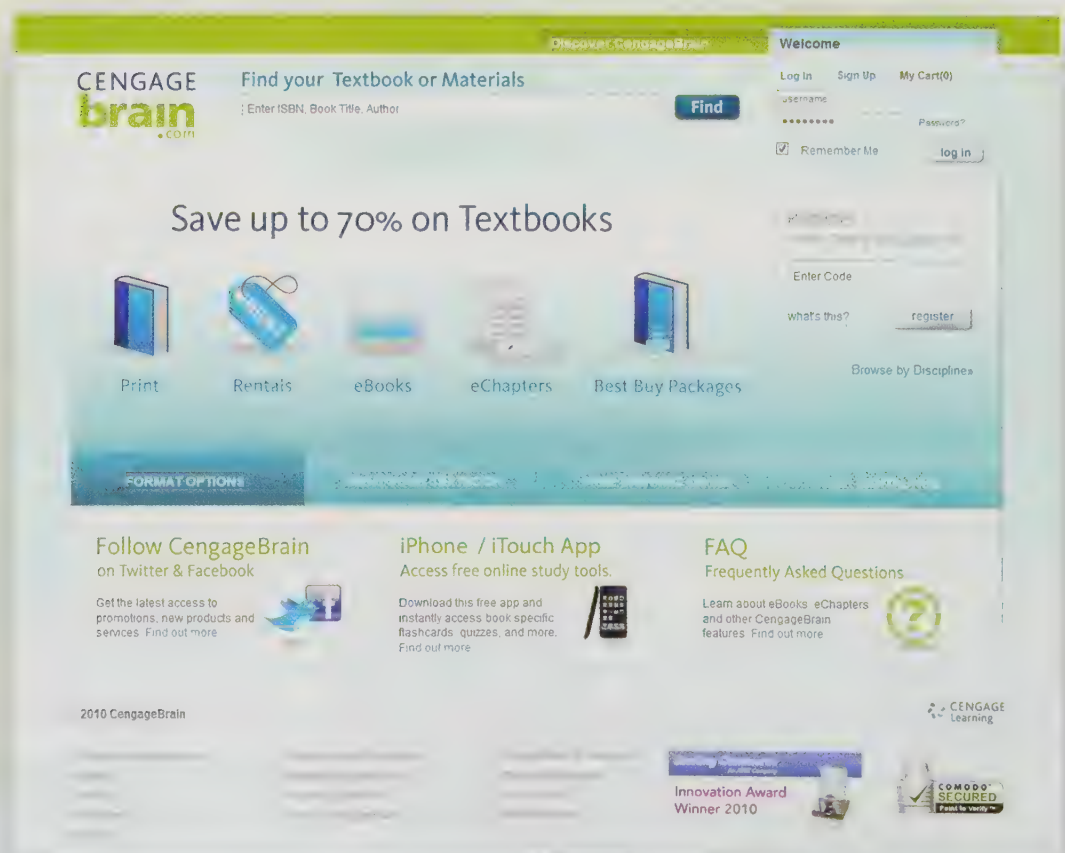
Channel Cooperation

Channel cooperation is vital if each member is to gain something from other members. Cooperation enables retailers, wholesalers, suppliers, and logistics providers to speed up inventory replenishment, improve customer service, and cut the costs of bringing products to the consumer.¹¹ Without cooperation, neither overall channel goals nor individual member goals can be realized. All channel members must recognize that the success of one firm in the channel depends in part on other member firms. Thus, marketing channel members should make a coordinated effort to satisfy market requirements. Channel cooperation leads to greater trust among channel members and improves the overall functioning of the channel. It also leads to more satisfying relationships among channel members.

There are several ways to improve channel cooperation. If a marketing channel is viewed as a unified supply chain competing with other systems, individual members will be less likely to take actions that create disadvantages for other members. Similarly, channel members should agree to direct efforts toward common objectives so channel roles can be structured for maximum marketing effectiveness, which in turn can help members achieve individual objectives. A critical component in cooperation is a precise definition of each channel member's tasks. This provides a basis for reviewing the intermediaries' performance and helps reduce conflicts because each channel member knows exactly what is expected of it.

Channel Conflict

Textbook publishers, which have traditionally marketed college textbooks through campus bookstores and now sell textbooks through their own websites, may be experiencing channel conflict.



Channel Conflict

Although all channel members work toward the same general goal—distributing products profitably and efficiently—members sometimes may disagree about the best methods for attaining this goal. However, if self-interest creates misunderstanding about role expectations, the end result is frustration and conflict for the whole channel. For individual organizations to function together, each channel member must clearly communicate and understand the role expectations. Communication difficulties are a potential form of channel conflict because ineffective communication leads to frustration, misunderstandings, and ill-coordinated strategies, jeopardizing further coordination.

The increased use of multiple channels of distribution, driven partly by new technology, has increased the potential for conflict between manufacturers and intermediaries. For instance, Hewlett-Packard makes products available directly to consumers through its website, thereby competing directly with existing distributors and retailers, such as Best Buy. Channel conflicts also arise when intermediaries overemphasize competing products or diversify into product lines traditionally handled by other intermediaries. Sometimes conflict develops because producers strive to increase efficiency by circumventing intermediaries. Such conflict is occurring in marketing channels for computer software. A number of software-only stores are establishing direct relationships with software producers, bypassing wholesale distributors altogether.

When a producer that has traditionally used franchised dealers broadens its retailer base to include other types of retail outlets, considerable conflict can arise. When Goodyear intensified its market coverage by allowing Sears and Discount Tire to market Goodyear tires, its action antagonized 2,500 independent Goodyear dealers.

Although there is no single method for resolving conflict, partnerships can be reestablished if two conditions are met. First, the role of each channel member must be specified. To minimize misunderstanding, all members must be able to expect unambiguous, agreed-on performance levels from one another. Second, members of channel partnerships must institute certain measures of channel coordination, which requires leadership and benevolent exercise of control. To prevent channel conflict from arising, producers or other channel members may provide competing resellers with different brands, allocate markets among resellers, define policies for direct sales to avoid potential conflict over large accounts, negotiate territorial issues among regional distributors, and provide recognition to certain resellers for their importance in distributing to others.

CHANNEL INTEGRATION

Channel members can either combine and control most activities or pass them on to another channel member. Channel functions may be transferred between intermediaries and to producers and even to customers. However, a channel member cannot eliminate supply-chain functions; unless buyers themselves perform the functions, they must pay for the labor and resources needed to perform them.

Various channel stages may be combined under the management of a channel captain either horizontally or vertically. Such integration may stabilize supply, reduce costs, and increase coordination of channel members.



Marketing Debate

Outlet Store—Good Deal or Not?

ISSUE: Is it ethical for outlet stores to sell different product lines than those in conventional stores?

What, exactly, are outlet stores marketing? Originally, manufacturers and retailers used outlet stores (usually bare-bones stores in out-of-the-way locations) to sell excess or irregular merchandise. In recent years, however, outlet stores have become big draws for crowds of price-conscious shoppers looking for brand names at bargain prices.

Manufacturers see outlet stores as a good opportunity to sell directly to consumers, although conventional retailers that sell the same brands are worried about channel conflict. Now, to meet increased demand, manufacturers such as Coach and Gap are creating product lines specifically for their outlet stores. Shoppers may not realize that what's stocked in the outlet is not always the same merchandise stocked in a conventional store, so are outlet shoppers really getting big bargains on branded merchandise? "At outlets, sometimes it's a good deal and sometimes it's just a different deal," says Professor Lois Olson of San Diego State University.^c

Vertical Channel Integration

Vertical channel integration combines two or more stages of the channel under one management. This may occur when one member of a marketing channel purchases the operations of another member or simply performs the functions of another member, eliminating the need for that intermediary. PepsiCo, for example, purchased PepsiAmericas and The Pepsi Bottling Group, both of which own and operate local bottling and distribution organizations. Although the purchase may trigger antitrust concerns, it represented a new strategy among beverage manufacturers to better control the distribution and marketing of all of their drink products, not just sodas, as consumers increasingly buy other beverages, such as energy drinks, juices, and flavored waters.¹²

Unlike conventional channel systems, participants in vertical channel integration coordinate efforts to reach a desired target market. In this more progressive approach to distribution, channel members regard other members as extensions of their own operations. Vertically integrated channels are often more effective against competition because of increased bargaining power and the sharing of information and responsibilities. At one end of a vertically integrated channel, a manufacturer might provide advertising and training assistance, and the retailer at the other end might buy the manufacturer's products in large quantities and actively promote them.

Integration has been successfully institutionalized in a marketing channel called the **vertical marketing system (VMS)**, in which a single channel member coordinates or manages channel activities to achieve efficient, low-cost distribution aimed at satisfying target market customers. Vertical integration brings most or all stages of the marketing channel under common control or ownership. The Limited, a retail clothing chain, uses a wholly owned subsidiary, Mast Industries, as its primary supply source. Radio Shack operates as a VMS, encompassing both wholesale and retail functions. Because efforts of individual channel members are combined in a VMS, marketing activities can be coordinated for maximum effectiveness and economy without duplication of services. VMSs are competitive, accounting for a share of retail sales in consumer goods.

Most vertical marketing systems take one of three forms: corporate, administered, or contractual. A *corporate VMS* combines all stages of the marketing channel, from producers to consumers, under a single owner. For example, The Limited established a corporate VMS that operates corporate-owned production facilities and retail stores. Supermarket chains that own food-processing plants and large retailers that purchase wholesaling and production facilities are other examples of corporate VMSs.

In an *administered VMS*, channel members are independent, but a high level of inter-organizational management is achieved through informal coordination. Members of an administered VMS, for example, may adopt uniform accounting and ordering procedures and cooperate in promotional activities for the benefit of all partners. Although individual channel members maintain autonomy, as in conventional marketing channels, one channel member (such as a producer or large retailer) dominates the administered VMS so that distribution decisions take the whole system into account. Because of its size and power, Intel exercises a strong influence over distributors and manufacturers in its marketing channels, as do Kellogg (cereal) and Magnavox (televisions and other electronic products).

Under a *contractual VMS*, the most popular type of vertical marketing system, channel members are linked by legal agreements spelling out each member's rights and obligations. Franchise organizations, such as McDonald's and KFC, are contractual VMSs. Other contractual VMSs include wholesaler-sponsored groups, such as IGA (Independent Grocers' Alliance) stores, in which independent retailers band together under the contractual leadership of a wholesaler. Retailer-sponsored cooperatives, which own and operate their own wholesalers, are a third type of contractual VMS.

Horizontal Channel Integration

Combining organizations at the same level of operation under one management constitutes **horizontal channel integration**. An organization may integrate horizontally by merging

vertical channel integration

Combining two or more stages of the marketing channel under one management

vertical marketing system (VMS)

A marketing channel managed by a single channel member to achieve efficient, low-cost distribution aimed at satisfying target market customers

horizontal channel integration

Combining organizations at the same level of operation under one management

with other organizations at the same level in the marketing channel. The owner of a dry-cleaning firm, for example, might buy and combine several other existing dry-cleaning establishments. Horizontal integration may enable a firm to generate sufficient sales revenue to integrate vertically as well.

Although horizontal integration permits efficiencies and economies of scale in purchasing, marketing research, advertising, and specialized personnel, it is not always the most effective method of improving distribution. Problems of size often follow, resulting in decreased flexibility, difficulties in coordination, and the need for additional marketing research and large-scale planning. Unless distribution functions for the various units can be performed more efficiently under unified management than under the previously separate managements, horizontal integration will neither reduce costs nor improve the competitive position of the integrating firm.

Physical Distribution in Supply-Chain Management

Physical distribution, also known as *logistics*, refers to the activities used to move products from producers to consumers and other end users. Physical distribution systems must meet the needs of both the supply chain and customers. Distribution activities are thus an important part of supply-chain planning and require the cooperation of all partners.

Within the marketing channel, physical distribution activities may be performed by a producer, a wholesaler, or a retailer, or they may be outsourced. In the context of distribution, *outsourcing* is the contracting of physical distribution tasks to third parties. Most physical distribution activities can be outsourced to third-party firms that have special expertise in areas such as warehousing, transportation, inventory management, and information technology. Perot Systems, a company acquired by Dell, provides business processing outsourcing (BPO) services to several agencies of the federal government, including U.S. Citizenship and Immigration Services. Perot Systems helps this agency process citizenship and immigration applications more efficiently, maintain records and files, and schedule interviews and oath ceremonies.¹³

Cooperative relationships with third-party organizations, such as trucking companies, warehouses, and data-service providers, can help to reduce marketing channel costs and boost service and customer satisfaction for all supply-chain partners. When choosing companies through which to outsource, marketers must be cautious and use efficient firms that help the outsourcing company provide excellent customer service. They also need to recognize the importance of logistics functions such as warehousing and information technology in reducing physical distribution costs associated with outsourcing.

Planning an efficient physical distribution system is crucial to developing an effective marketing strategy because it can decrease costs and increase customer satisfaction. Speed of delivery, flexibility, and quality of service are often as important to customers as costs. Companies that have the right goods, in the right place, at the right time, in the right quantity, and with the right support services are able to sell more than competitors that do not. Even when the demand for products is unpredictable, suppliers must be able to respond quickly to inventory needs. In such cases, physical distribution costs may be a minor consideration when compared with service, dependability, and timeliness.

Customer relationship management systems exploit the information from supply-chain partners' database systems to help logistics managers identify and root out inefficiencies in the supply chain for the benefit of all marketing channel members—from the producer to the ultimate consumer. Indeed, technology is playing a larger and larger role in physical distribution within marketing channels. It has transformed physical distribution by facilitating just-in-time delivery, precise inventory visibility, and instant shipment tracking capabilities, which help companies to avoid expensive mistakes, reduce costs, and even generate revenues.

physical distribution
Activities used to move products from producers to consumers and other end users

Information technology brings visibility to the supply chain by allowing all marketing channel members to see precisely where an item is within the supply chain at any time.¹⁴

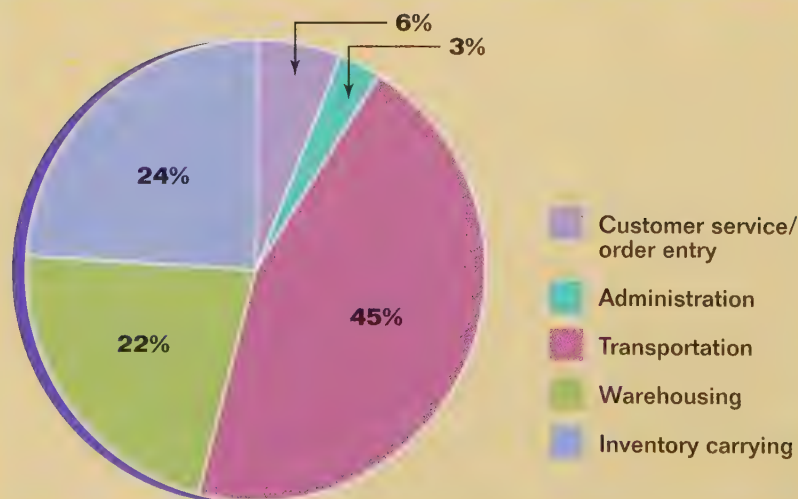
Although physical distribution managers try to minimize the costs associated with order processing, inventory management, materials handling, warehousing, and transportation, decreasing the costs in one area often raises them in another. Figure 14.6 shows the percentage of total costs that physical distribution functions represent. A total-cost approach to physical distribution enables managers to view physical distribution as a system rather than a collection of unrelated activities. This approach shifts the emphasis from lowering the separate costs of individual activities to minimizing overall distribution costs.

Physical distribution managers must be sensitive to the issue of cost trade-offs. Higher costs in one functional area of a distribution system may be necessary to achieve lower costs in another. Trade-offs are strategic decisions to combine (and recombine) resources for greatest cost-effectiveness. When distribution managers regard the system as a network of integrated functions, trade-offs become useful tools in implementing a unified, cost-effective distribution strategy.

Another important goal of physical distribution involves **cycle time**, the time needed to complete a process. For instance, reducing cycle time while maintaining or reducing costs and/or maintaining or increasing customer service is a winning combination in supply chains and ultimately leads to greater end-customer satisfaction. Footwear manufacturers, for example, are looking for ways to reduce cycle times, delivering new products to retailers faster. Because the majority of footwear sold in the United States comes from China, products must be shipped to a port and then distributed across the country. To limit a portion of the ground transportation, some companies are starting to use a two-point distribution strategy instead of just one U.S. entry point. Products are transported to the East and West coasts, placing them closer to distribution centers and customers.¹⁵

In the rest of this section, we take a closer look at a variety of physical distribution activities, including order processing, inventory management, materials handling, warehousing, and transportation.

FIGURE 14.6 Proportional Cost of Each Physical Distribution Function as a Percentage of Total Distribution Costs



cycle time

The time needed to complete a process

ORDER PROCESSING

Order processing is the receipt and transmission of sales order information. Although management sometimes overlooks the importance of these activities, efficient order processing facilitates product flow. Computerized order processing provides a database for all supply-chain members to increase their productivity. When carried out quickly and accurately, order processing contributes to customer satisfaction, decreased costs and cycle time, and increased profits.

Order processing entails three main tasks: order entry, order handling, and order delivery. Order entry begins when customers or salespeople place purchase orders via telephone, snail mail, e-mail, or website. Electronic ordering is less time-consuming than a manual, paper-based ordering system and reduces costs. In some companies, sales representatives receive and enter orders personally and also handle complaints, prepare progress reports, and forward sales order information.

Order handling involves several tasks. Once an order is entered, it is transmitted to a warehouse, where product availability is verified, and to the credit department, where prices, terms, and the customer's credit rating are checked. If the credit department approves the purchase, warehouse personnel (sometimes assisted by automated equipment) pick and assemble the order. If the requested product is not in stock, a production order is sent to the factory, or the customer is offered a substitute.

When the order has been assembled and packed for shipment, the warehouse schedules delivery with an appropriate carrier. If the customer pays for rush service, overnight delivery by FedEx, UPS, DHL, or another overnight carrier is used. The customer is sent an invoice, inventory records are adjusted, and the order is delivered.

Whether a company uses a manual or an electronic order-processing system depends on which method provides the greater speed and accuracy within cost limits. Manual processing suffices for small-volume orders and is more flexible in certain situations. Most companies, however, use **electronic data interchange (EDI)**, which uses computer technology to integrate order processing with production, inventory, accounting, and transportation. Within the supply chain, EDI functions as an information system that links marketing channel members and outsourcing firms together. It reduces paperwork for all members of the supply chain and allows them to share information on invoices, orders, payments, inquiries, and scheduling. Consequently, many companies have pushed their suppliers toward EDI to reduce distribution costs and cycle times.

INVENTORY MANAGEMENT

Inventory management involves developing and maintaining adequate assortments of products to meet customers' needs. It is a key component of any effective physical distribution system. Inventory decisions have a major impact on physical distribution costs and the level of customer service provided. When too few products are carried in inventory, the result is *stockouts*, or shortages of products that, in turn, can result in brand switching, lower sales, and loss of customers. When too many products (or too many slow-moving products) are carried, costs increase, as do risks of product obsolescence, pilferage, and damage. The objective of inventory management is to minimize inventory costs while maintaining an adequate supply of goods to satisfy customers. To achieve this objective, marketers focus on two major issues: when to order and how much to order.

To determine when to order, a marketer calculates the *reorder point*: the inventory level that signals the need to place a new order. To calculate the reorder point, the marketer must know the order lead time, the usage rate, and the amount of safety stock required. The *order lead time* refers to the average time lapse between placing the order and receiving it. The *usage rate* is the rate at which a product's inventory is used or sold during a specific time period. *Safety stock* is the amount of extra inventory a firm keeps to guard against stockouts resulting from above-average usage rates and/or longer-than-expected lead times. The reorder point can be calculated using the following formula:

$$\text{reorder point} = (\text{order lead time} \times \text{usage rate}) + \text{safety stock}$$

order processing

The receipt and transmission of sales order information

electronic data interchange (EDI)

A computerized means of integrating order processing with production, inventory, accounting, and transportation

inventory management

Developing and maintaining adequate assortments of products to meet customers' needs

Thus, if order lead time is 10 days, usage rate is 3 units per day, and safety stock is 20 units, the reorder point is 50 units.

Efficient inventory management with accurate reorder points is crucial for firms that use a **just-in-time (JIT)** approach, in which supplies arrive just as they are needed for use in production or for resale. When using JIT, companies maintain low inventory levels and purchase products and materials in small quantities whenever they need them. Usually there is no safety stock, and suppliers are expected to provide consistently high-quality products. JIT inventory management requires a high level of coordination between producers and suppliers, but it eliminates waste and reduces inventory costs significantly. This approach has been used successfully by many well-known firms—including Chrysler, Harley-Davidson, and Dell Computer—to reduce costs and boost customer satisfaction. When a JIT approach is used in a supply chain, suppliers often move close to their customers.

MATERIALS HANDLING

Materials handling, the physical handling of tangible goods, supplies, and resources, is an important factor in warehouse operations, as well as in transportation from points of production to points of consumption. Efficient procedures and techniques for materials handling minimize inventory management costs, reduce the number of times a good is handled, improve customer service, and increase customer satisfaction. Systems for packaging, labeling, loading, and movement must be coordinated to maximize cost reduction and customer satisfaction.

A growing number of firms are turning to radio waves to track materials tagged with radio frequency ID (RFID) through every phase of handling. Freda, a Lithuanian furniture manufacturer, uses RFID technology to track the furniture that it supplies to IKEA, the Swedish retail outlet. As outgoing shipments to IKEA pass through RFID portals, the entire forklift of merchandise is automatically scanned to make sure that the shipment is complete and accurate. Freda also uses this RFID technology to track when items are produced and sent out, and when its inventory of a specific product is getting low so that it can manufacture more of that product. Considering the company ships about 800 items in over 15 trucks per day, this technology helps Freda increase order speed and accuracy while minimizing costs.¹⁶

Product characteristics often determine handling. For example, the characteristics of bulk liquids and gases determine how they can be moved and stored. Internal packaging is also an important consideration in materials handling; goods must be packaged correctly to prevent damage or breakage during handling and transportation. Most companies employ packaging consultants during the product design process to help them decide which packaging materials and methods will result in the most efficient handling.

Unit loading and containerization are two common methods used in materials handling. With *unit loading*, one or more boxes are placed on a pallet or skid; these units then can be loaded efficiently by mechanical means such as forklifts, trucks, or conveyer systems. *Containerization* is the consolidation of many items into a single, large container that is sealed at its point of origin and opened at its destination. Containers are usually 8 feet wide, 8 feet high, and 10 to 40 feet long. They can be conveniently stacked and shipped via train, barge, or ship. Once containers reach their destinations, wheel assemblies can be added to make them suitable for ground transportation. Because individual items are not handled in transit, containerization greatly increases efficiency and security in shipping.

WAREHOUSING

Warehousing, the design and operation of facilities for storing and moving goods, is another important physical distribution function. Warehousing provides time utility by enabling firms to compensate for dissimilar production and consumption rates. When mass production creates a greater stock of goods than can be sold immediately, companies may

just-in-time (JIT)

An inventory-management approach in which supplies arrive just when needed for production or resale

materials handling

Physical handling of tangible goods, supplies, and resources

warehousing

The design and operation of facilities for storing and moving goods



Warehousing and Inventory Management

ASAP Systems provides warehouse inventory management systems to business customers.

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warehouse the surplus until customers are ready to buy. Warehousing also helps to stabilize prices and the availability of seasonal items.

The choice of warehouse facilities is an important strategic consideration. The right type of warehouse allows a company to reduce transportation and inventory costs or improve service to customers. The wrong type of warehouse may drain company resources. Beyond deciding how many facilities to operate and where to locate them, a company must determine which type of warehouse is most appropriate. Warehouses fall into two general categories: private and public. In many cases, a combination of private and public facilities provides the most flexible warehousing approach.

Companies operate **private warehouses** for shipping and storing their own products. A firm usually leases or purchases a private warehouse when its warehousing needs in a given geographic market are substantial and stable enough to warrant a long-term commitment to a fixed facility. Private warehouses are also appropriate for firms that require special handling and storage and that want control of warehouse design and operation. Retailers such as Sears and Radio Shack find it economical to integrate private warehousing with purchasing and distribution for their retail outlets. When sales volumes are fairly stable, ownership and control of a private warehouse may provide benefits such as property appreciation. Private warehouses, however, face fixed costs such as insurance, taxes, maintenance, and debt expense. They also limit flexibility when firms wish to move inventories to more strategic locations. Many private warehouses are being eliminated by direct links between producers and customers, reduced cycle times, and outsourcing to public warehouses.

Public warehouses lease storage space and related physical distribution facilities to other companies. They sometimes provide distribution services such as receiving, unloading, inspecting, and reshipping products; filling orders; providing financing; displaying products; and coordinating shipments. Distribution Unlimited Inc., for example, offers a wide range of such services through its facilities in New York, which contain more than 8 million total square feet of warehouse space.¹⁷

Public warehouses are especially useful to firms that have seasonal production or low-volume storage needs, have inventories that must be maintained in many locations, are testing or entering new markets, or own private warehouses but occasionally require additional storage space. Public warehouses also serve as collection points during product-recall programs.

private warehouses

Company-operated facilities for storing and shipping products

public warehouses

Storage space and related physical distribution facilities that can be leased by companies

Whereas private warehouses have fixed costs, public warehouses offer variable (and often lower) costs because users rent space and purchase warehousing services only as needed.

Many public warehouses furnish security for products that are used as collateral for loans, a service provided at either the warehouse or the site of the owner's inventory. *Field public warehouses* are established by public warehouses at the owner's inventory location. The warehouse becomes custodian of the products and issues a receipt that can be used as collateral for a loan. Public warehouses also provide *bonded storage*, a warehousing arrangement in which imported or taxable products are not released until the products' owners pay U.S. customs duties, taxes, or other fees. Bonded warehouses enable firms to defer tax payments on such items until they are delivered to customers.

Distribution centers are large facilities used for receiving, warehousing, and redistributing products to stores or customers. Distribution centers are specially designed for rapid flow of products. They are usually one-story buildings (to eliminate elevators) with access to transportation networks such as major highways and/or railway lines. Many distribution centers are highly automated, with computer-directed robots, forklifts, and hoists that collect and move products to loading docks. American Eagle Outfitters, for example, operates multiple distribution centers to serve the needs of more than 1,100 American Eagle Outfitters, aerie, and 77kids stores in the United States, Canada, and the Middle East. The American Eagle Outfitters and aerie brands market apparel to the 15- to 25-year-old market, while the new 77kids brand markets apparel to 2- to 12-year-olds. Efficiency and creativity in distribution operations help the firm to keep up with a high volume of merchandise moving through the centers and to stay on top of busy holiday seasons.¹⁸ Although some public warehouses offer such specialized services, most distribution centers are privately owned. They serve customers in regional markets and, in some cases, function as consolidation points for a company's branch warehouses.

distribution centers

Large, centralized warehouses that focus on moving rather than storing goods

transportation

The movement of products from where they are made to intermediaries and end users

TRANSPORTATION

Transportation, the movement of products from where they are made to intermediaries and end users, is the most expensive physical distribution function. Today, approximately 10 percent of a company's total expenses are freight charges.¹⁹ Because product availability and timely deliveries depend on transportation functions, transportation decisions directly affect customer service. A firm may even build its distribution and marketing strategy around

Emerging Trends in Marketing



Getting Ready for Stormy Weather

Getting ready for a storm? Major retailers such as Home Depot have to be ready long before you even think about shopping for a snow shovel or flashlight. Not only do stores plan to have the right merchandise in the right locations, they also must think about keeping employees, facilities, and equipment safe and sound.

For example, Home Depot maintains several distribution centers exclusively for storm-related merchandise, which are stocked up on basics such as gas-powered generators before

storm season even begins. Then, the retailer's "command center" personnel track the course of severe weather using weather predictions. As hurricanes or blizzards move in, staffers send out trucks loaded with storm merchandise for each store. They also investigate emergency housing for employees and determine when stores should open and close. In the wake of Hurricane Katrina's devastation, Home Depot opened a temporary store in Mississippi but closed it four years later, after much of the rebuilding had been completed.⁴



Transportation Modes

FedEx offers delivery solutions to consumers and businesses throughout the world, using railroads and airplanes.

a unique transportation system if that system can ensure on-time deliveries and thereby give the firm a competitive edge. Companies may build their own transportation fleets (private carriers) or outsource the transportation function to a common or contract carrier.

Transportation Modes

The basic transportation modes for moving physical goods are railroads, trucks, waterways, airways, and pipelines. Each has distinct advantages. Many companies adopt physical handling procedures that facilitate the use of two or more modes in combination. Table 14.3 shows the percentage of intercity freight carried by each transportation mode.

Railroads such as Union Pacific and Canadian National carry heavy, bulky freight that must be shipped long distances over land. Railroads commonly haul minerals, sand, lumber, chemicals, and farm products, as well as low-value manufactured goods and automobiles. However, transporting chemicals via railroads can be dangerous in an accident. Currently, Clorox is changing the way it manufactures its product, eliminating chlorine gas, to make the product safer to transport via rail.²⁰ Railroads are especially efficient for transporting full carloads, which can be shipped at lower rates than smaller quantities because they require less handling. Many companies locate factories or warehouses near rail lines for convenient loading and unloading.

Trucks provide the most flexible schedules and routes of all major transportation modes in the United States because they can go almost anywhere. Because trucks have a unique ability to move goods directly from factory or warehouse to customer, they are often used in conjunction with other forms of transport that cannot provide door-to-door deliveries. Trucks are more expensive and somewhat more vulnerable to bad weather than trains. They are also subject to size and weight restrictions on the products they carry. Trucks are sometimes criticized for high levels of loss and damage to freight and for delays caused by the rehandling of small shipments.

Waterways are the cheapest method of shipping heavy, low-value, nonperishable goods such as ore, coal, grain, and petroleum products. Water carriers offer considerable capacity.

TABLE 14.3 Characteristics and Ratings of Transportation Modes by Selection Criteria

Selection Criteria	Railroads	Trucks	Pipelines	Waterways	Airplanes
Cost	Moderate	High	Low	Very low	Very high
Speed	Average	Fast	Slow	Very slow	Very fast
Dependability	Average	High	High	Average	High
Load flexibility	High	Average	Very low	Very high	Low
Accessibility	High	Very high	Very limited	Limited	Average
Frequency	Low	High	Very high	Very low	Average
Products carried	Coal, grain, lumber, paper and pulp products, chemicals	Clothing, computers, books, groceries and produce, livestock	Oil, processed coal, natural gas	Chemicals, bauxite, grain, motor vehicles, agricultural implements	Flowers, food (highly perishable), technical instruments, emergency parts and equipment, overnight mail

Source: U.S. Bureau of Transportation Statistics, National Transportation Statistics (Washington, DC: U.S. Government Printing Office), September 2009, www.bts.gov/publications/national_transportation_statistics/html/table_01_46b.html.

Powered by tugboats and towboats, barges that travel along intracoastal canals, inland rivers, and navigation systems can haul at least ten times the weight of one rail car, and oceangoing vessels can haul thousands of containers. More than 95 percent of international cargo is transported by water. However, many markets are inaccessible by water transportation unless supplemented by rail or truck. Droughts and floods also may create difficulties for users of inland waterway transportation. Nevertheless, the extreme fuel efficiency of water transportation and the continuing globalization of marketing likely will increase its use in the future.

Air transportation is the fastest but most expensive form of shipping. It is used most often for perishable goods; for high-value, low-bulk items; and for products that require quick delivery over long distances, such as emergency shipments. Some air carriers transport combinations of passengers, freight, and mail. Despite its expense, air transit can reduce warehousing and packaging costs and losses from theft and damage, thus helping to lower total costs (but truck transportation needed for pickup and final delivery adds to cost and transit time). Although air transport accounts for less than 1 percent of total ton-miles carried, its importance as a mode of transportation is growing. In fact, the success of many businesses is now based on the availability of overnight air delivery service provided by organizations such as UPS, FedEx, DHL, RPS Air, and the U.S. Postal Service. Amazon.com, for example, ships many of the products that are ordered online via UPS within one day.

Pipelines, the most automated transportation mode, usually belong to the shipper and carry the shipper's products. Most pipelines carry petroleum products or chemicals. The Trans-Alaska Pipeline, owned and operated by a consortium of oil companies that includes ExxonMobil and BP, transports crude oil from remote oil-drilling sites in central Alaska to shipping terminals on the coast. Slurry pipelines carry pulverized coal, grain, or wood chips suspended in water. Pipelines move products slowly but continuously and at relatively low cost. They are dependable and minimize the problems of product damage and theft. However, contents are subject

to as much as 1 percent shrinkage, usually from evaporation. Pipelines also have been a concern to environmentalists, who fear installation and leaks could harm plants and animals.

Choosing Transportation Modes

Logistics managers select a transportation mode based on the combination of cost, speed, dependability, load flexibility, accessibility, and frequency that is most appropriate for their products and generates the desired level of customer service. Table 14.3 shows relative ratings of each transportation mode by these selection criteria.

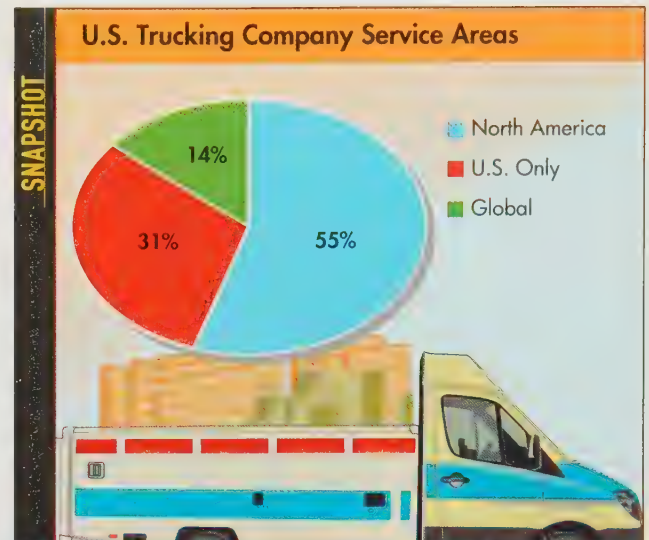
Marketers compare alternative transportation modes to determine whether the benefits from a more expensive mode are worth the higher costs. Companies such as Iron Data can assist marketers in analyzing various transportation options. This Internet firm's software provides corporate users with several services, including the ability to view information about the speed and cost of different transportation modes, print labels, order shipping, and track shipments online.²¹

Coordinating Transportation

To take advantage of the benefits offered by various transportation modes and compensate for deficiencies, marketers often combine and coordinate two or more modes. In recent years, **intermodal transportation**, as this integrated approach is sometimes called, has become easier because of new developments within the transportation industry. Several kinds of intermodal shipping are available. All combine the flexibility of trucking with the low cost or speed of other forms of transport. Containerization facilitates intermodal transportation by consolidating shipments into sealed containers for transport by *piggyback* (shipping that uses both truck trailers and railway flatcars), *fishyback* (truck trailers and water carriers), and *birdyback* (truck trailers and air carriers). As transportation costs have increased, intermodal shipping has gained popularity. To transport its floor cleaners to retail locations, Electrolux relies on several modes of transportation, which include water, rail, and truck carriers. The majority of products are shipped from Asia to ports in the United States, transported to the distribution center in El Paso, Texas, via rail and finally to destinations via trucks.²²

Specialized outsource agencies provide other forms of transport coordination. Known as **freight forwarders**, these firms combine shipments from several organizations into efficient lot sizes. Small loads (less than 500 pounds) are much more expensive to ship than full carloads or truckloads, which frequently require consolidation. Freight forwarders take small loads from various marketers, buy transport space from carriers, and arrange for goods to be delivered to buyers. For instance, L'Oreal USA uses freight forwarders for shipments that are less-than-truckload, weighing less than 20,000 pounds.²³ Freight forwarders' profits come from the margin between the higher, less-than-carload rates they charge each marketer and the lower carload rates they themselves pay. Because large shipments require less handling, use of freight forwarders can speed delivery. Freight forwarders also can determine the most efficient carriers and routes and are useful for shipping goods to foreign markets. Currently, Boeing and Damco, a Danish logistics company, are using each other's expertise, in manufacturing and freight forwarding, to improve global supply chain management by creating industrial and technological logistics tools.²⁴ Some companies prefer to outsource their shipping to freight forwarders because the latter provide door-to-door service.

Another transportation innovation is the development of **megacarriers**, freight transportation companies that offer several shipment methods, including rail, truck, and air service.



Note: U.S. trucking companies are expanding their operations outside the United States to Mexico and Canada in North America and markets as far as Australia.

Source: Joseph O'Reilly, "Trucking 2010 Perspectives," *Inbound Logistics* (September 2010): 53.

intermodal transportation

Two or more transportation modes used in combination

freight forwarders

Organizations that consolidate shipments from several firms into efficient lot sizes

megacarriers

Freight transportation firms that provide several modes of shipment

Intermodal Transportation

Containers facilitate intermodal transportation because they can be transported by ships, trains, and trucks.



CSX, for example, has trains, barges, container ships, trucks, and pipelines, thus offering a multitude of transportation services. In addition, air carriers have increased their ground-transportation services. As they expand the range of transportation alternatives, carriers also put greater stress on customer service.

Legal Issues in Channel Management

The numerous federal, state, and local laws governing channel management are based on the general principle that the public is best served by protecting competition and free trade. Under the authority of such federal legislation as the Sherman Antitrust Act and the Federal Trade Commission Act, courts and regulatory agencies determine under what circumstances channel management practices violate this underlying principle and must be restricted. Although channel managers are not expected to be legal experts, they should be aware that attempts to control distribution functions may have legal repercussions. The following practices are among those frequently subject to legal restraint.

DUAL DISTRIBUTION

Earlier we noted that some companies may use dual distribution by using two or more marketing channels to distribute the same products to the same target market. Hewlett-Packard, for example, sells computers directly to consumers through a toll-free telephone line and a website, as well as through electronics retailers such as Best Buy. Courts do not consider this practice illegal when it promotes competition. A manufacturer can also legally open its own retail outlets. But the courts view as a threat to competition a manufacturer that uses company-owned outlets to dominate or drive out of business independent retailers or distributors that handle its

products. In such cases, dual distribution violates the law. To avoid this interpretation, producers should use outlet prices that do not severely undercut independent retailers' prices.

RESTRICTED SALES TERRITORIES

To tighten control over distribution of its products, a manufacturer may try to prohibit intermediaries from selling its products outside designated sales territories. Intermediaries themselves often favor this practice because it gives them exclusive territories, allowing them to avoid competition for the producer's brands within these territories. In recent years, the courts have adopted conflicting positions in regard to restricted sales territories. Although the courts have deemed restricted sales territories a restraint of trade among intermediaries handling the same brands (except for small or newly established companies), they have also held that exclusive territories can actually promote competition among dealers handling different brands. At present, the producer's intent in establishing restricted territories and the overall effect of doing so on the market must be evaluated for each individual case.

TYING AGREEMENTS

When a supplier (usually a manufacturer or franchiser) furnishes a product to a channel member with the stipulation that the channel member must purchase other products as well, a **tying agreement** exists. Suppliers may institute tying agreements to move weaker products along with more popular items, or a franchiser may tie purchase of equipment and supplies to the sale of franchises, justifying the policy as necessary for quality control and protection of the franchiser's reputation.

A related practice is *full-line forcing*, in which a supplier requires that channel members purchase the supplier's entire line to obtain any of the supplier's products. Manufacturers sometimes use full-line forcing to ensure that intermediaries accept new products and that a suitable range of products is available to customers.

The courts accept tying agreements when the supplier alone can provide products of a certain quality, when the intermediary is free to carry competing products as well, and when a company has just entered the market. Most other tying agreements are considered illegal.

EXCLUSIVE DEALING

When a manufacturer forbids an intermediary to carry products of competing manufacturers, the arrangement is called **exclusive dealing**. Manufacturers receive considerable market protection in an exclusive-dealing arrangement and may cut off shipments to intermediaries that violate the agreement.

The legality of an exclusive-dealing contract is generally determined by applying three tests. If the exclusive dealing blocks competitors from as much as 15 percent of the market, the sales volume is large, and the producer is considerably larger than the retailer, the arrangement is considered anticompetitive. If dealers and customers in a given market have access to similar products or if the exclusive-dealing contract strengthens an otherwise weak competitor, the arrangement is allowed.

REFUSAL TO DEAL

For more than 75 years, the courts have held that producers have the right to choose channel members with which they will do business (and the right to reject others). Within existing distribution channels, however, suppliers may not legally refuse to deal with wholesalers or dealers merely because these wholesalers or dealers resist policies that are anticompetitive or in restraint of trade. Suppliers are further prohibited from organizing some channel members in refusal-to-deal actions against other members that choose not to comply with illegal policies.

tying agreement

An agreement in which a supplier furnishes a product to a channel member with the stipulation that the channel member must purchase other products as well

exclusive dealing

A situation in which a manufacturer forbids an intermediary to carry products of competing manufacturers

CHAPTER REVIEW

1 Describe the foundations of supply-chain management.

The distribution component of the marketing mix focuses on the decisions and activities involved in making products available to customers when and where they want to purchase them. An important function of distribution is the joint effort of all involved organizations to be part of creating an effective supply chain, which refers to all the activities associated with the flow and transformation of products from raw materials through to the end customer. Operations management is the total set of managerial activities used by an organization to transform resource inputs into products, services, or both. Logistics management involves planning, implementation, and controlling the efficient and effective flow and storage of goods, services, and information from the point of origin to consumption in order to meet customers' needs and wants. Supply management in its broadest form refers to the processes that enable the progress of value from raw material to final customer and back to redesign and final disposition. Supply-chain management therefore refers to a set of approaches used to integrate the functions of operations management, logistics management, supply management, and marketing channel management so that products and services are produced and distributed in the right quantities, to the right locations, and at the right time. The supply chain includes all entities—shippers and other firms that facilitate distribution, as well as producers, wholesalers, and retailers—that distribute products and benefit from cooperative efforts.

2 Explore the role and significance of marketing channels and supply chains.

A marketing channel, or channel of distribution, is a group of individuals and organizations that direct the flow of products from producers to customers. The major role of marketing channels is to make products available at the right time, at the right place, and in the right amounts. In most channels of distribution, producers and consumers are linked by marketing intermediaries. The two major types of intermediaries are retailers, which purchase products and resell them to ultimate consumers, and wholesalers, which buy and resell products to other wholesalers, retailers, and business customers.

Marketing channels serve many functions. They create time, place, and possession utilities by making products available when and where customers want them and providing customers with access to product use through sale or rental. Marketing intermediaries facilitate exchange efficiencies, often reducing the costs of exchanges by performing certain services and functions. Although some critics suggest eliminating wholesalers, the functions of the intermediaries in the marketing channel must be performed. As such, eliminating one or more intermediaries results in other organizations in the channel having to do more. Because intermediaries serve both producers and buyers, they reduce the total number of transactions that otherwise would be needed to move products from producer to the end customer.

3 Identify types of marketing channels.

Channels of distribution are broadly classified as channels for consumer products and channels for business products. Within these two broad categories, different channels are used for different products. Although consumer goods can move directly from producer to consumers, consumer channels that include wholesalers and retailers are usually more economical and knowledge-efficient. Distribution of business products differs from that of consumer products in the types of channels used. A direct distribution channel is common in business marketing. Also used are channels containing industrial distributors, manufacturers' agents, and a combination of agents and distributors. Most producers have multiple or dual channels so the distribution system can be adjusted for various target markets.

4 Understand factors that influence marketing channel selection.

Selecting an appropriate marketing channel is a crucial decision for supply-chain managers. To determine which channel is most appropriate, managers must think about customer characteristics, the type of organization, product attributes, competition, environmental forces, and the availability and characteristics of intermediaries. Careful consideration of these factors will assist a supply-chain manager in selecting the correct channel.

5 Identify the intensity of market coverage.

A marketing channel is managed such that products receive appropriate market coverage. In choosing intensive distribution, producers strive to make a product available to all possible dealers. In selective distribution, only some outlets in an area are chosen to distribute a product. Exclusive distribution usually gives a single dealer rights to sell a product in a large geographic area.

6 Examine strategic issues in marketing channels, including leadership, cooperation, and conflict.

Each channel member performs a different role in the system and agrees to accept certain rights, responsibilities, rewards, and sanctions for non-conformance. Although many marketing channels are determined by consensus, some are organized and controlled by a single leader, or channel captain. A channel captain may be a producer, wholesaler, or retailer. A marketing channel functions most effectively when members cooperate; when they deviate from their roles, channel conflict can arise.

Integration of marketing channels brings various activities under one channel member's management. Vertical integration combines two or more stages of the channel under one management. The vertical marketing system (VMS) is managed centrally for the mutual benefit of all channel members. Vertical marketing systems may be corporate, administered, or contractual. Horizontal integration combines institutions at the same level of channel operation under a single management.

7 Examine physical distribution as a part of supply-chain management.

Physical distribution, or logistics, refers to the activities used to move products from producers to customers and other end users. These activities include order processing, inventory management, materials handling, warehousing, and transportation. An efficient physical distribution system is

an important component of an overall marketing strategy because it can decrease costs and increase customer satisfaction. Within the marketing channel, physical distribution activities are often performed by a wholesaler, but they may also be performed by a producer or retailer or outsourced to a third party. Efficient physical distribution systems can decrease costs and transit time while increasing customer service.

Order processing is the receipt and transmission of sales order information. It consists of three main tasks—order entry, order handling, and order delivery—that may be done manually but are more often handled through electronic data interchange systems. Inventory management involves developing and maintaining adequate assortments of products to meet customers' needs. Logistics managers must strive to find the optimal level of inventory to satisfy customer needs while keeping costs down. Materials handling, the physical handling of products, is a crucial element in warehousing and transporting products. Warehousing involves the design and operation of facilities for storing and moving goods; such facilities may be privately owned or public. Transportation, the movement of products from where they are made to where they are purchased and used, is the most expensive physical distribution function. The basic modes of transporting goods include railroads, trucks, waterways, airways, and pipelines.

8 Explore legal issues in channel management.

Federal, state, and local laws regulate channel management to protect competition and free trade. Courts may prohibit or permit a practice depending on whether it violates this underlying principle. Channel management practices frequently subject to legal restraint include dual distribution, restricted sales territories, tying agreements, exclusive dealing, and refusal to deal. When these practices strengthen weak competitors or increase competition among dealers, they may be permitted; in most other cases, when competition may be weakened considerably, they are deemed illegal.

ONLINE RESOURCES

Please visit the student website at www.cengagebrain.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

distribution 391	exclusive distribution 405	just-in-time (JIT) 414
supply chain 391	channel captain 407	materials handling 414
operations management 391	channel power 407	warehousing 414
logistics management 391	vertical channel integration 410	private warehouses 415
supply management 391	vertical marketing system (VMS) 410	public warehouses 415
supply-chain management 391	horizontal channel integration 410	distribution centers 416
marketing channel 393	physical distribution 411	transportation 416
marketing intermediaries 393	cycle time 412	intermodal transportation 419
industrial distributor 399	order processing 413	freight forwarders 419
dual distribution 400	electronic data interchange (EDI) 413	megacarriers 419
strategic channel alliance 401	inventory management 413	tying agreement 421
intensive distribution 403		exclusive dealing 421
selective distribution 404		

ISSUES FOR DISCUSSION AND REVIEW

1. Define supply-chain management. Why is it important?
2. Describe the major functions of marketing channels. Why are these functions better accomplished through combined efforts of channel members?
3. List several reasons consumers often blame intermediaries for distribution inefficiencies.
4. Compare and contrast the four major types of marketing channels for consumer products. Through which type of channel is each of the following products most likely to be distributed?
 - a. New automobiles
 - b. Saltine crackers
 - c. Cut-your-own Christmas trees
 - d. New textbooks
 - e. Sofas
 - f. Soft drinks
5. Outline the four most common channels for business products. Describe the products or situations that lead marketers to choose each channel.
6. Describe an industrial distributor. What types of products are marketed through an industrial distributor?
7. Under what conditions is a producer most likely to use more than one marketing channel?
8. Identify and describe the factors that may influence marketing channel selection decisions.
9. Explain the differences among intensive, selective, and exclusive methods of distribution.
10. "Channel cooperation requires that members support the overall channel goals to achieve individual goals." Comment on this statement.
11. Explain the major characteristics of each of the three types of vertical marketing systems (VMSs): corporate, administered, and contractual.
12. Discuss the cost and service trade-offs involved in developing a physical distribution system.
13. What are the main tasks involved in order processing?
14. Explain the trade-offs that inventory managers face when they reorder products or supplies. How is the reorder point computed?
15. Explain the major differences between private and public warehouses. How do they differ from a distribution center?
16. Compare and contrast the five major transportation modes in terms of cost, speed, and dependability.
17. Under what conditions are tying agreements, exclusive dealing, and dual distribution judged illegal?

MARKETING APPLICATIONS

1. *Supply-chain management* involves long-term partnerships among channel members that are working together to reduce inefficiencies, costs, and redundancies and to develop innovative approaches to satisfy customers. Select one of the following companies and explain how supply-chain management could increase marketing productivity.
 - a. Dell
 - b. FedEx
 - c. Nike
 - d. Taco Bell
2. Marketers can select from three major levels of marketing coverage when determining the number and kinds of outlets in which to sell a product: intensive, selective, or exclusive distribution. Characteristics of the product and its target market determine the intensity of coverage a product should receive. Indicate the intensity level best suited for the following products, and explain why it is appropriate.
 - a. Personal computers
 - b. Deodorant
 - c. Canon digital cameras
 - d. Nike athletic shoes
3. Describe the decision process you might go through if you were attempting to determine the most

appropriate distribution channel for one of the following:

- a. Shotguns for hunters
 - b. Women's lingerie
 - c. Telephone systems for small businesses
 - d. Toy trucks for 2-year-olds
4. Assume that you are responsible for the physical distribution of computers at a web-based company. What would you do to ensure product availability, timely delivery, and quality service for your customers?

ONLINE EXERCISE

5. Many companies lack their own distribution systems. Firms in this situation may rely on the services provided by companies such as FedEx to handle their distribution. Learn more about the services provided by FedEx at www.fedex.com.
 - a. What tools does FedEx provide to make the shipping process easier?
 - b. Other than shipping products, what other services does FedEx provide?
 - c. Is there information on the FedEx website that would help a potential FedEx customer to evaluate FedEx regarding some of the selection criteria shown in Table 14.3?

DEVELOPING YOUR MARKETING PLAN

One of the key components in a successful marketing strategy is the plan for getting the products to your customer. To make the best decisions about where, when, and how your products will be made available to the customer, you need to know more about how these distribution decisions relate to other marketing mix elements in your marketing plan. To assist you in relating the information in this chapter to your marketing plan, consider the following issues:

1. Marketing intermediaries perform many activities. Using Table 14.2 as a guide, discuss the types of activities where a channel member could provide needed assistance.
2. Using Figure 14.2 (or 14.3 if your product is a business product), determine which of the channel dis-

tribution paths is most appropriate for your product. Given the nature of your product, could it be distributed through more than one of these paths?

3. Determine the level of distribution intensity that is appropriate for your product. Consider the characteristics of your target market(s), the product attributes, and environmental factors in your deliberation.
4. Discuss the physical functions that will be required for distributing your product, focusing on materials handling, warehousing, and transportation.

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

NETFLIX'S DISTRIBUTION GOES BEYOND DISKS

Founded in 1997, Netflix was originally nothing more than an online version of a traditional video rental store. Customers could visit the Netflix website and choose movies to rent by mail. Each DVD rental cost \$4, along with a \$2 shipping fee, plus late fees, if applicable. However, with bricks-and-mortar video rental stores booming, Netflix quickly figured out that it needed a more compelling competitive advantage to attract a large and loyal customer base.

Instead of charging for individual DVDs, Netflix instituted a monthly subscription plan, charging customers based on the number of movies they want to have at home. Monthly packages range from one-at-a-time to four-at-a-time DVD rentals—no late fees, ever. Members create a list of movies they would like to see in order of preference, and Netflix delivers them. As soon as a customer returns a DVD in Netflix's prepaid envelope, the company sends the next one on the list.

As Netflix's cost-efficient subscription model became more popular, it expanded its film and television show collection and now offers more independent and foreign films, documentaries, and television shows than anyone else. It also added a "Play Instantly" feature, allowing subscribers to download movies from the Netflix website. Customers enjoy being able to click and watch a movie right away—and Netflix saves on shipping fees, not to mention lightening its physical distribution load.

To keep up with the high volume of rentals by mail, Netflix employees check in and mail out more than 600 DVDs every hour. Netflix maintains 58 distribution centers around the country. As a result, DVDs typically arrive one day after they're shipped to customers. Netflix knows that speed is critical because customers want to make the most of their subscriptions. The faster DVDs arrive, the faster they can be viewed and dropped in the mailbox, to be checked in by the nearest Netflix distribution center. Then the next DVD on the list is mailed, and the cycle begins again.

Today, Netflix invites subscribers to stream rented movies electronically through a variety of devices, including Microsoft's Xbox 360, Sony's PS3, Nintendo's Wii, selected Blu-ray DVD players, and web-enabled televisions from several manufacturers. Although a growing number of customers are opting for these digital rental options, the majority still prefer Netflix's original rent-by-mail offering. Within a few years, however, digital delivery could become the company's mainstay.

Now Netflix has grown into a major power in the movie rental business, ringing up \$2.2 billion in revenue and serving more than 23 million members. During the past decade, it's adapted to an ever-changing competitive landscape. Blockbuster, whose superstores once dominated the industry, has been struggling financially and closing outlets. Even the mighty Walmart tried to compete with Netflix at one time, but it ultimately decided to exit the DVD rental business. Regional video rental chains and independent stores are disappearing, partly because of economic pressures and partly because of changing technology and customer behavior.

Meanwhile, Redbox is the rising star of in-person DVD rentals. Its 27,000 gleaming red vending machines are seemingly everywhere, in supermarkets, convenience stores, and other high-traffic retail outlets, inviting impulse rentals. Customers can see, at a glance, which movies are available for rent and swipe a credit or debit card to pay the wallet-pleasing rental fee of \$1 per day. If they wish, customers can reserve specific movies online or via iPhone before heading out to the nearest Redbox kiosk to pick them up. Unlike Netflix, which lets customers keep DVDs for days or even weeks without paying additional fees, Redbox charges \$1 per day for every rental, up to a maximum of \$25 (at which point, the customer keeps the DVD).

Digital delivery puts Netflix into competition with sites such as Apple iTunes, which sell downloads of individual television episodes and other entertainment offerings. It also competes with free sites such as Hulu, which offer advertiser-supported viewings of movies, television programs, and video clips. Despite the competition, Netflix has been thriving, thanks to its vast selection, responsive service, and cost-effective subscription pricing. With ever-evolving technologies to take advantage of, the company sees plenty of room to grow and plenty of new customers to win over.²⁵

QUESTIONS FOR DISCUSSION

1. How is Netflix using physical distribution for competitive advantage?
2. How have product attributes and customer characteristics changed the competitive landscape for distribution in the movie rental industry?
3. Can Netflix be considered a channel captain? Explain your answer.

CHAPTER 15

Retailing, Direct Marketing, and Wholesaling

Richard B. Levine/Newscom



MARKETING INSIGHTS

There's No Stopping GameStop's Game Plan for Retail Success

From Dallas, Texas, to Dee Why, Australia, GameStop is a big player in video game retailing. The company, based in Grapevine, Texas, rings up more than \$9 billion in annual sales through 6,500 stores worldwide. GameStop targets three customer segments: enthusiasts who want the latest consoles and games, consumers who are casual players, and consumers who give games as gifts. Its game plan for global success is based on an ever-changing store assortment of new and used products.

Under GameStop's trade-in program, customers who bring in used games or consoles receive store credit toward the purchase of other merchandise. GameStop ships used items to one of its refurbishment centers to be tested, repaired, repackaged, and returned to stores for resale. This trade-in program stimulates a steady stream of store traffic.

To ensure that new products reach stores as quickly as possible, GameStop has one distribution center for new items and a second distribution center for all other merchandise. The company monitors daily sales in each store and automatically ships replenishment stock twice a week, freeing store staff to concentrate on serving customers.

GameStop has been building up its online presence to cater to consumers who prefer to buy with a click. Its website provides previews of soon-to-be-released games, invites customers to preorder new games, and offers downloads of new and classic games, some for sale and some for free. Although digital downloads are increasingly popular, GameStop believes that its in-store retailing strength will keep the company ahead of the game for years to come.¹

OBJECTIVES:

- 1 Understand the purpose and function of retailers in the marketing channel.
- 2 Identify the major types of retailers.
- 3 Explore strategic issues in retailing.
- 4 Recognize the various forms of direct marketing and selling.
- 5 Examine franchising and its benefits and weaknesses.
- 6 Understand the nature and functions of wholesaling.
- 7 Understand how wholesalers are classified.

Retailers such as GameStop are the most visible and accessible marketing channel members to consumers. They are an important link in the marketing channel because they are both marketers for and customers of producers and wholesalers. They perform many supply-chain functions, such as buying, selling, grading, risk taking, and developing and maintaining information databases about customers. Retailers are in a strategic position to develop relationships with consumers and partnerships with producers and intermediaries in the marketing channel.

In this chapter, we examine the nature of retailing, direct marketing, and wholesaling and their importance in supplying consumers with goods and services. First, we explore the major types of retail stores and consider strategic issues in retailing: location, retail positioning, store image, and category management. Next, we discuss direct marketing, including catalog marketing, response marketing, telemarketing, television home shopping, and online retailing. We also explore direct selling and vending. Then we look at franchising, a retailing form that continues to grow in popularity. Finally, we examine the importance of wholesalers in marketing channels, including their functions and classifications.

Retailing

Retailing includes all transactions in which the buyer intends to consume the product through personal, family, or household use. Buyers in retail transactions are therefore the ultimate consumers. A **retailer** is an organization that purchases products for the purpose of reselling them to ultimate consumers. Although most retailers' sales are made directly to the consumer, nonretail transactions occur occasionally when retailers sell products to other businesses.

Retailing often takes place in stores or service establishments, but it also occurs through direct selling, direct marketing, and vending machines. Given the purchasing pattern trends of the past decade, there is a clear expectation that consumers will increasingly buy their goods and services online. Online shoppers prefer shopping on the Internet to avoid crowds,

retailing

All transactions in which the buyer intends to consume the product through personal, family, or household use

retailer

An organization that purchases products for the purpose of reselling them to ultimate consumers

Approaches to Retailing

In addition to brick-and-mortar stores, retailers like Costco respond to the growing trend in online retailing by selling products via their websites.



find lower prices, avoid the inconvenience of having to travel to stores, and have a wider selection of products. This trend is evident when looking at sales from Black Friday, the Friday after Thanksgiving when most retailers drastically mark down products to jump-start the holiday shopping season. It is common to find customers camping outside of retail stores in order to take advantage of the huge discounts. This trend may be dwindling as many consumers decide to sleep in and take advantage of the price reductions from their computer at home. Last year, online sales were up 15.9 percent on Black Friday.²

Retailing is important to the national U.S. economy. Approximately 1.1 million retailers operate in the United States.³ This number has remained relatively constant for the past 25 years, but sales volume has increased more than fourfold. Most personal income is spent in retail stores, and nearly one of every five people employed in the United States works in a retail operation.⁴

Retailers add value for customers by providing services and assisting in making product selections. They can enhance the value of products by making buyers' shopping experiences more convenient, as in online shopping. Through their locations, retailers can facilitate comparison shopping; for example, car dealerships often cluster in the same general vicinity, as do furniture stores. Product value is also enhanced when retailers offer services, such as technical advice, delivery, credit, and repair. Finally, retail sales personnel can demonstrate to customers how products can satisfy their needs or solve problems.

The value added by retailers is significant for both producers and end consumers. Retailers are the critical link between producers and end consumers because they provide the environment in which exchanges with ultimate consumers occur. Ultimate consumers benefit through retailers' performance of marketing functions that result in the availability of broader arrays of products that can satisfy the needs of consumers. Retailers play a major role in creating time, place, and possession utility and, in some cases, form utility.

Leading retailers such as Walmart, Home Depot, Macy's, Staples, and Best Buy offer consumers a place to browse and compare merchandise to find just what they need. However, such traditional retailing is being challenged by direct marketing channels that provide home shopping through catalogs, television, and the Internet. Brick-and-mortar retailers are responding to this change in the retail environment in various ways. Walmart, for example, has established a website for online shopping and joined forces with fast-food giants McDonald's and KFC to attract consumers and offer them the added convenience of eating where they shop.

New store formats and advances in information technology are making the retail environment highly dynamic and competitive. Instant-messaging technology is enabling online retailers to converse in real time with customers so they do not click away to another site. Consider Lands' End: at the Lands' End website, shoppers can click to chat, via keyboard, directly with a customer service representative about sizes, colors, or other product details. The key to success in retailing is to have a strong customer focus with a retail strategy that provides the level of service, product quality, and innovation that consumers desire. Partnerships among noncompeting retailers and other marketing channel members are providing new opportunities for retailers. For example, airports are leasing space to retailers such



Note: U.S. retail sales in billions of dollars.

Source: "2011 Top 100 Retailers," *NRF Stores Magazine*, July 2011, www.stores.org/2011/Top-100-Retailers (accessed July 19, 2011). © 2011 Stores Magazine. Used with permission.

Reaching Retail Customers

Retailers are going to where their customers are. Some stores are expanding their presence in airports to entice captive travelers.



Jason Cohn/KRT/Newscom

as McDonald's, Sunglass Hut, and The Body Shop. Kroger and Nordstrom have developed joint co-branded credit cards that offer rebates to customers at participating stores.

Retailers are also finding global opportunities. For example, both McDonald's and The Gap Inc. are now opening more international stores than domestic ones, a trend that is likely to continue for the foreseeable future. Starbucks has opened hundreds of stores in Japan and Southeast Asia. Increasingly, retailers from abroad, such as IKEA, are opening stores in the United States.

Major Types of Retail Stores

Many types of retail stores exist. One way to classify them is by the breadth of products they offer. Two general categories include general-merchandise retailers and specialty retailers.

general-merchandise retailer

A retail establishment that offers a variety of product lines that are stocked in considerable depth

department stores

Large retail organizations characterized by a wide product mix and organized into separate departments to facilitate marketing efforts and internal management

GENERAL-MERCHANDISE RETAILERS

A retail establishment that offers a variety of product lines that are stocked in considerable depth is referred to as a **general-merchandise retailer**. The types of product offerings, mixes of customer services, and operating styles of retailers in this category vary considerably. The primary types of general-merchandise retailers are department stores, discount stores, convenience stores, supermarkets, superstores, hypermarkets, warehouse clubs, and warehouse showrooms (see Table 15.1).

Department Stores

Department stores are large retail organizations characterized by wide product mixes and staffs of at least 25 people. To facilitate marketing efforts and internal management in these

TABLE 15.1 General-Merchandise Retailers

Type of Retailer	Description	Examples
Department store	Large organization offering a wide product mix and organized into separate departments	Macy's, Sears, JCPenney
Discount store	Self-service, general-merchandise store offering brand name and private brand products at low prices	Walmart, Target, Kmart
Convenience store	Small self-service store offering narrow product assortment in convenient locations	7-Eleven
Supermarket	Self-service store offering complete line of food products and some nonfood products	Kroger, Safeway, Publix
Superstore	Giant outlet offering all food and nonfood products found in supermarkets, as well as most routinely purchased products	Walmart Supercenters, SuperTarget
Hypermarket	Combination supermarket and discount store; larger than a superstore	Carrefour
Warehouse club	Large-scale, members-only establishments combining cash-and-carry wholesaling with discount retailing	Sam's Club, Costco
Warehouse showroom	Facility in a large, low-cost building with large on-premises inventories and minimal service	IKEA

stores, related product lines are organized into separate departments—such as cosmetics, housewares, apparel, home furnishings, and appliances—to facilitate marketing and internal management. Often, each department functions as a self-contained business, and buyers for individual departments are fairly autonomous.

Department stores are distinctly service oriented. Their total product may include credit, delivery, personal assistance, merchandise returns, and a pleasant atmosphere. Although some so-called department stores are actually large, departmentalized specialty stores, most department stores are shopping stores. Consumers can compare price, quality, and service at one store with those at competing stores. Along with large discount stores, department stores are often considered retailing leaders in a community and are found in most places with populations of more than 50,000.

Typical department stores, such as Macy's, Sears, JCPenney, Dillard's, and Neiman Marcus, obtain a large proportion of sales from apparel, accessories, and cosmetics. Other products these stores carry include gift items, luggage, electronics, home accessories, and sports equipment. Some department stores offer such services as automobile insurance, hair care, income tax preparation, and travel and optical services. In some cases, space for these specialized services is leased out, with proprietors managing their own operations and paying rent to the store. Many department stores also sell products through their websites.

Discount Stores

In recent years, department stores have been losing sales to discount stores, especially Walmart and Target. **Discount stores** are self-service, general-merchandise outlets that regularly offer brand-name and private-brand products at low prices. Discounters accept lower margins than conventional retailers in exchange for high sales volume. To keep inventory

discount stores

Self-service, general-merchandise stores that offer brand name and private brand products at low prices



© Robert Harding Picture Library/Alamy

Department Stores

Department stores like Macy's offer a wide variety of product lines.

turnover high, they carry a wide but carefully selected assortment of products, from appliances to housewares to clothing. Major discount establishments also offer food products, toys, automotive services, garden supplies, and sports equipment.

Walmart and Target are the two largest discount stores. Walmart has grown to 8,390 stores worldwide and brings in nearly \$405 billion in sales annually.⁵ Some discounters, such as Meijer Inc., are regional organizations. Most of them operate in large (50,000 to 80,000 square feet), no-frills facilities. Discount stores usually offer everyday low prices rather than relying on sales events.

Discount retailing developed on a large scale in the early 1950s, when postwar production began catching up with consumer demand for appliances, home furnishings, and other hard goods. Discount stores were often cash-only operations in warehouse districts, offering goods at savings of 20 to 30 percent over conventional retailers. Facing increased competition from department stores and other discount stores, some discounters have improved store services, atmosphere, and location, raising prices and sometimes blurring the distinction between discount store and department store. Even Target is investing in its stores in the hopes of attaining greater customer traffic. The company is expanding its grocery offerings, electronics departments, and shoe sections. Target's remodeled stores have met with initial success—average sales at these stores have increased 6 percent.⁶

Convenience Stores

A **convenience store** is a small, self-service store that is open long hours and carries a narrow assortment of products, usually convenience items such as soft drinks and other beverages, snacks, newspapers, tobacco, and gasoline, as well as services such as automatic teller machines. The primary product offered by the “corner store” is convenience.

According to the National Association of Convenience Stores, there are 146,341 convenience stores in the United States with one convenience store per approximately 2,100 residents. They are typically less than 5,000 square feet; open 24 hours a day, 7 days a week; and stock about 500 items. In addition to many national chains, there are many family-owned independent convenience stores in operation. The convenience store concept was developed in 1927 when Southland Ice in Dallas began stocking milk, eggs, and other products for customers who wanted to replenish their “ice boxes.”⁷

Supermarkets

Supermarkets are large, self-service stores that carry a complete line of food products, as well as some nonfood products such as cosmetics and nonprescription drugs. Supermarkets are arranged in departments for maximum efficiency in stocking and handling products but have central checkout facilities. They offer lower prices than smaller neighborhood grocery stores, usually provide free parking, and may also cash checks.

Today, consumers make more than three-quarters of all grocery purchases in supermarkets. Even so, supermarkets' total share of the food market is declining because consumers now have widely varying food preferences and buying habits, and in many communities,

convenience store

A small self-service store that is open long hours and carries a narrow assortment of products, usually convenience items

supermarkets

Large, self-service stores that carry a complete line of food products, along with some nonfood products

shoppers can choose from several convenience stores, discount stores, and specialty food stores, as well as a wide variety of restaurants. Walmart, for example, expects to generate in its “supermarket-type” stores more revenue than the top three U.S. supermarket chains—Kroger, Albertson’s, and Safeway—combined.

Superstores

Superstores, which originated in Europe, are giant retail outlets that carry not only food and nonfood products that are ordinarily found in supermarkets but also routinely purchased consumer products. Besides a complete food line, superstores sell housewares, hardware, small appliances, clothing, personal-care products, garden products, and tires—about four times as many items as supermarkets. Services available at superstores include dry cleaning, automotive repair, check cashing, bill paying, and snack bars. Superstores combine features of discount stores and supermarkets. Examples include Walmart Supercenters, some Kroger stores, SuperTarget stores, and Super Kmart Centers.

To cut handling and inventory costs, superstores use sophisticated operating techniques and often have tall shelving that displays entire assortments of products. Superstores can have an area of as much as 200,000 square feet (compared with 20,000 square feet in traditional supermarkets). Sales volume is two to three times that of supermarkets, partly because locations near good transportation networks help generate the in-store traffic needed for profitability.

Hypermarkets

Hypermarkets combine supermarket and discount store shopping in one location. Larger than superstores, they range from 225,000 to 325,000 square feet and offer 45,000 to 60,000 different types of low-priced products. They commonly allocate 40 to 50 percent of their space to grocery products and the remainder to general merchandise, including athletic shoes, designer jeans, and other apparel; refrigerators, televisions, and other appliances; housewares; cameras; toys; jewelry; hardware; and automotive supplies. Many lease space to

superstores

Giant retail outlets that carry food and nonfood products found in supermarkets, as well as most routinely purchased consumer products

hypermarkets

Stores that combine supermarket and discount store shopping in one location



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Superstores

Superstores like Target carry a wide assortment of products at competitive prices.

noncompeting businesses such as banks, optical shops, and fast-food restaurants. All hypermarkets focus on low prices and vast selections.

Although Kmart, Walmart, and Carrefour (a French retailer) have operated hypermarkets in the United States, most of these stores were unsuccessful and closed. Such stores may be too big for time-constrained U.S. shoppers. However, hypermarkets are more successful in Europe, South America, and Mexico and, more recently, in the Middle East and India.

Warehouse Clubs

Warehouse clubs, a rapidly growing form of mass merchandising, are large-scale, members-only selling operations that combine cash-and-carry wholesaling with discount retailing. Sometimes called *buying clubs*, warehouse clubs offer the same types of products as discount stores but in a limited range of sizes and styles. Whereas most discount stores carry around 40,000 items, a warehouse club handles only 3,500 to 5,000 products, usually acknowledged brand leaders. Sam's Club stores, for example, stock about 4,000 items, with 1,400 available most of the time and the rest being one-time buys. Costco leads the warehouse club industry with sales of nearly \$78 billion. Sam's Club is second with almost \$47 billion in store sales. A third company, BJ's Wholesale Club, which operates in the Northeast and Florida, has a much smaller market.⁸ All these establishments offer a broad product mix, including food, beverages, books, appliances, housewares, automotive parts, hardware, and furniture.

To keep prices lower than those of supermarkets and discount stores, warehouse clubs provide few services. They generally do not advertise, except through direct mail. Their facilities, often located in industrial areas, have concrete floors and aisles wide enough for forklifts. Merchandise is stacked on pallets or displayed on pipe racks. Customers must transport purchases themselves. Warehouse clubs appeal to many price-conscious consumers and small retailers unable to obtain wholesaling services from large distributors. The average warehouse club shopper has more education, a higher income, and a larger household than the average supermarket shopper.

Warehouse Showrooms

Warehouse showrooms are retail facilities with five basic characteristics: large, low-cost buildings; warehouse materials-handling technology; vertical merchandise displays; large, on-premises inventories; and minimal services. IKEA, a Swedish company, sells furniture, household goods, and kitchen accessories in warehouse showrooms and through catalogs around the world, including China and Russia. These high-volume, low-overhead operations stress fewer personnel and services. Lower costs are possible because some marketing functions have been shifted to consumers, who must transport, finance, and perhaps store larger quantities of products. Most consumers carry away purchases in the manufacturer's carton, although stores will deliver for a fee.

SPECIALTY RETAILERS

In contrast to general-merchandise retailers with their broad product mixes, specialty retailers emphasize narrow and deep assortments. Despite their name, specialty retailers do not sell specialty items (except when specialty goods complement the overall product mix). Instead, they offer substantial assortments in a few product lines. We examine three types of specialty retailers: traditional specialty retailers, category killers, and off-price retailers.

Traditional Specialty Retailers

Traditional specialty retailers are stores that carry a narrow product mix with deep product lines. Sometimes called *limited-line retailers*, they may be referred to as *single-line retailers* if they carry unusual depth in one main product category. Specialty retailers commonly sell

warehouse clubs

Large-scale, members-only establishments that combine features of cash-and-carry wholesaling with discount retailing

warehouse showrooms

Retail facilities in large, low-cost buildings with large on-premises inventories and minimal services

traditional specialty retailers

Stores that carry a narrow product mix with deep product lines



AP Images/L. M. Otero



© David McNew/Getty Images

Traditional Specialty Store and an Off-Price Specialty Store

Victoria's Secret is a traditional specialty store. T.J. Maxx is an example of an off-price specialty retailer.

such shopping products as apparel, jewelry, sporting goods, fabrics, computers, and pet supplies. The Limited, Radio Shack, Hickory Farms, The Gap, and Foot Locker are examples of retailers offering limited product lines but great depth within those lines.

Because they are usually small, specialty stores may have high costs in proportion to sales, and satisfying customers may require carrying some products with low turnover rates. However, these stores sometimes obtain lower prices from suppliers by purchasing limited lines of merchandise in large quantities. Successful specialty stores understand their customer types and know what products to carry, thus reducing the risk of unsold merchandise. Specialty stores usually offer better selections and more sales expertise than department stores, their main competitors. By capitalizing on fashion, service, personnel, atmosphere, and location, specialty retailers position themselves strategically to attract customers in specific market segments.

Category Killers

Over the past 20 years, a new breed of specialty retailer, the category killer, has evolved. A **category killer** is a very large specialty store that concentrates on a major product category and competes on the basis of low prices and enormous product availability. These stores are referred to as category killers because they expand rapidly and gain sizable market shares, taking business away from smaller, high-cost retail outlets. Examples of category killers include Home Depot and Lowe's (home improvement chains); Staples, Office Depot, and OfficeMax (office-supply chains); Barnes & Noble (bookseller); Petco and PetSmart (pet-supply chains); and Best Buy (consumer electronics).

Off-Price Retailers

Off-price retailers are stores that buy manufacturers' seconds, overruns, returns, and off-season production runs at below-wholesale prices for resale to consumers at deep

category killer

A very large specialty store that concentrates on a major product category and competes on the basis of low prices and product availability

off-price retailers

Stores that buy manufacturers' seconds, overruns, returns, and off-season merchandise for resale to consumers at deep discounts

Green Marketing



Walmart Tackles Sustainability Issues

Walmart is not only the world's largest retailer, it's also a recognized leader in managing for sustainability. The company has short-term and long-term plans to tackle a variety of important environmental issues, including harnessing energy from renewable sources, conserving natural resources, and reducing waste in landfills. In California, Hawaii, and Arizona, Walmart has equipped some stores and distribution centers with solar panels for clean electricity generation. Its fleet of delivery vehicles includes hybrid diesel-electric trucks as well as a few biofuel trucks, which run

on used cooking grease. In addition, Walmart has stepped up recycling of hangers, plastics, and other materials.

Using its marketing muscle, Walmart is taking the green movement to store shelves with special Home Energy Efficiency aisles filled with compact-fluorescent bulbs, high-efficiency appliances, and other consumer products. The company has also donated \$2 million to install energy-efficient refrigeration and lighting in food banks across the country, using philanthropy to further its sustainability agenda.^a

discounts. Unlike true discount stores, which pay regular wholesale prices for goods and usually carry second-line brand names, off-price retailers offer limited lines of national-brand and designer merchandise, usually clothing, shoes, or housewares. The number of off-price retailers such as T.J. Maxx, Marshalls, Stein Mart, and Burlington Coat Factory has grown.

Off-price stores charge 20 to 50 percent less than department stores for comparable merchandise but offer few customer services. They often feature community dressing rooms and central checkout counters. Some of these stores do not take returns or allow exchanges. Off-price stores may or may not sell goods with the original labels intact. They turn over their inventory 9 to 12 times a year, three times as often as traditional specialty stores. They compete with department stores for the same customers: price-conscious customers who are knowledgeable about brand names.

To ensure a regular flow of merchandise into their stores, off-price retailers establish long-term relationships with suppliers that can provide large quantities of goods at reduced prices. Manufacturers may approach retailers with samples, discontinued products, or items that have not sold well. Also, off-price retailers may seek out manufacturers, offering to pay cash for goods produced during the manufacturers' off-season. Although manufacturers benefit from such arrangements, they also risk alienating their specialty and department store customers. Department stores tolerate off-price stores as long as they do not advertise brand names, limit merchandise to lower-quality items, and are located away from the department stores. When off-price retailers obtain large stocks of in-season, top-quality merchandise, tension builds between department stores and manufacturers.

Strategic Issues in Retailing

Whereas most business purchases are based on economic planning and necessity, consumer purchases may result from social and psychological influences. Because consumers shop for various reasons—to search for specific items, escape boredom, or learn about something new—retailers must do more than simply fill space with merchandise. They must make desired products available, create stimulating shopping environments, and develop marketing

strategies that increase store patronage. In this section, we discuss how store location, retail positioning, store image, and category management are used strategically by retailers.

LOCATION OF RETAIL STORES

“Location, location, location” is a common saying among retailers (as well as realtors) because of its critical importance to success. At the same time, the retail location is the least flexible of the strategic retailing issues but is one of the most important because location dictates the limited geographic trading area from which a store draws its customers. Retailers consider various factors when evaluating potential locations, including location of the firm’s target market within the trading area, kinds of products being sold, availability of public transportation, customer characteristics, and competitors’ locations.

In choosing a location, a retailer evaluates the relative ease of movement to and from the site, including factors such as pedestrian and vehicular traffic, parking, and transportation. Retailers also evaluate the characteristics of the site itself: types of stores in the area; size, shape, and visibility of the lot or building under consideration; and rental, leasing, or ownership terms. Retailers look for compatibility with nearby retailers because stores that complement one another draw more customers for everyone.

Many retailers choose to locate in downtown central business districts, whereas others prefer sites within various types of shopping centers. Some retailers, including Toys“R”Us, Walmart, Home Depot, and many fast-food restaurants, opt for freestanding structures that are not connected to other buildings, but many chain stores are found in planned shopping centers and malls. JCPenney is transitioning away from malls to freestanding structures, allowing the retailer to be closer to its customers and reduce rent.⁹ Sometimes, retailers choose to locate in less orthodox settings.

There are several types of shopping centers, including neighborhood, community, regional, superregional, lifestyle, power, and outlet centers. **Neighborhood shopping centers** usually consist of several small convenience and specialty stores, such as small grocery stores, gas stations, and fast-food restaurants. Many of these retailers consider their target markets to be consumers who live within two to three miles of their stores, or 10 minutes’ driving time. Because most purchases are based on convenience or personal contact, there is usually little coordination of selling efforts within a neighborhood shopping center. Generally, product mixes consist of essential products, and depth of the product lines is limited. **Community shopping centers** include one or two department stores and some specialty stores, as well as convenience stores. They draw consumers looking for shopping and specialty products not available in neighborhood shopping centers. Because these centers serve larger geographic areas, consumers must drive longer distances to community shopping centers than to neighborhood centers. Community shopping centers are planned and coordinated to attract shoppers. Special events, such as art exhibits, automobile shows, and sidewalk sales, stimulate traffic. Managers of community shopping centers look for tenants that complement the centers’ total assortment of products. Such centers have wide product mixes and deep product lines.



Entrepreneurship in Marketing

Furniture Store? That Used to Be Our Roller-Skating Rink!

It takes entrepreneurial spirit to see a cavernous roller-skating rink as a future furniture store. However, an out-of-the-ordinary location was part of the appeal for Mary Liz Curtin and Stephen Scannell, the husband-and-wife owners of Leon & Lulu, an upscale furniture shop in Clawson, Michigan. Curtin and Scannell liked the size and character of the Ambassador Roller Rink, a local landmark more than 60 years old. Although they had to renovate it for its new purpose, they left the rink’s original scoreboard and floor intact.

Since the store’s grand opening in 2006, Curtin and Scannell have incorporated the rink’s heritage into their marketing efforts. They put hundreds of the old skates on display and, during busy sales, their employees skate around serving cookies to customers. The location has become a major draw, helping build the store’s annual sales beyond \$2 million. “We get letters from people who thank us for keeping the history alive,” Curtin says.^b

neighborhood shopping centers

Shopping centers usually consisting of several small convenience and specialty stores

community shopping centers

Shopping centers with one or two department stores, some specialty stores, and convenience stores



© Scott Boehm/Getty Images

Location

McDonald's is well known for choosing strategic locations, resulting in successful franchises.

regional shopping center

A type of shopping center with the largest department stores, widest product mixes, and deepest product lines of all shopping centers

superregional shopping center

A type of shopping center with the widest and deepest product mixes that attracts customers from many miles away

lifestyle shopping center

A type of shopping center that is typically open air and features upscale specialty, dining, and entertainment stores

Regional shopping centers usually have the largest department stores, widest product mixes, and deepest product lines of all shopping centers. Many shopping malls are regional shopping centers, although some are community shopping centers. With 150,000 or more consumers in their target market, regional shopping centers must have well-coordinated management and marketing activities. Target markets may include consumers traveling from a distance to find products and prices not available in their hometowns. Because of the expense of leasing space in regional shopping centers, tenants are more likely to be national chains than small, independent stores. Large centers usually advertise, have special events, furnish transportation to some consumer groups, maintain their own security forces, and carefully select the mix of stores. The largest of these centers, sometimes called **superregional shopping centers**, have the widest and deepest product mixes and attract customers from many miles away. Superregional centers often have special attractions beyond stores, such as skating rinks, amusement centers, or upscale restaurants. Mall of America, in the Minneapolis area, is the largest shopping mall in the United States with 520 stores, including Nordstrom and Bloomingdale's, and 50 restaurants. The shopping center also includes a walk-through aquarium, museum, theme parks, a 14-screen movie theater, hotels, and many special events.¹⁰

With traditional mall sales declining, some shopping center developers are looking to new formats that differ significantly from traditional shopping centers. A **lifestyle shopping center** is typically an open-air shopping center that features upscale specialty, dining, and entertainment stores, usually owned by national chains. They are often located

near affluent neighborhoods and may have fountains, benches, and other amenities that encourage "casual browsing." Indeed, architectural design is an important aspect of these "minicities," which may include urban streets or parks, and is intended to encourage consumer loyalty by creating a sense of place. Some lifestyle centers are designed to resemble traditional "Main Street" shopping centers or may have a central theme evidenced by architecture.¹¹

Some shopping center developers are bypassing the traditional department store anchor and combining off-price stores and small stores with category killers in **power shopping center** formats. These centers may be anchored by stores such as The Gap, Toys "R" Us, PetSmart, and Home Depot. The number of power shopping centers is growing, resulting in a variety of formats vying for the same retail dollar.

Factory outlet malls feature discount and factory outlet stores carrying traditional manufacturer brands, such as Quicksilver, Liz Claiborne, Reebok, and Le Creuset. Some outlet centers feature upscale products. Manufacturers own these stores and make a special effort to avoid conflict with traditional retailers of their products. Manufacturers claim their stores are in noncompetitive locations; indeed, most factory outlet centers are located outside metropolitan areas. Not all factory outlets stock closeouts and irregulars, but most avoid comparison with discount houses. Factory outlet centers attract value-conscious customers seeking quality and major brand names. They operate in much the same way as regional shopping centers, but usually draw customers, some of whom may be tourists, from a larger shopping radius.

Promotional activity is at the heart of these shopping centers. Craft and antique shows, contests, and special events attract a great deal of traffic.

RETAIL POSITIONING

The large variety of shopping centers and the expansion of product offerings by traditional stores have intensified retailing competition. Retail positioning is therefore an important consideration. **Retail positioning** involves identifying an unserved or underserved market segment and serving it through a strategy that distinguishes the retailer from others in the minds of those customers. For example, Walmart has built a reputation for providing a wide variety of low-price items conveniently to its customers. Walmart employs its everyday low prices strategy throughout its Walmart Discount Store, Supercenter, and Neighborhood Market outlets, as well as through its website. The retailer is also attempting to reposition itself through its new Marketside grocery stores, which are located in Arizona. These small-community, pilot grocery stores' offerings include low-cost grocery items but also focus on fresh and organic food items, restaurant-quality prepared meals, and a wide assortment of wines.¹² In recent years, a number of discount and specialty store chains have positioned themselves to appeal to time- and cash-strapped consumers with convenient locations and layouts as well as low prices. This strategy has helped them gain market share at the expense of large department stores.

STORE IMAGE

To attract customers, a retail store must project an image—a functional and psychological picture in the consumer's mind—that appeals to its target market. Store environment, merchandise quality, and service quality are key determinants of store image.

Atmospherics, the physical elements in a store's design that appeal to consumers' emotions and encourage buying, help to create an image and position a retailer. Barnes & Noble, for example, uses murals of authors and framed pictures of classic book covers to convey a literary image. Studies show that retailers can use different elements—music, color, and complexity of layout and merchandise presentation—to influence customer arousal based on their shopping motivation. Bars, for example, have to consider several factors when it comes to atmospherics, including music tempo and volume, lighting levels, cleanliness, and physical layout. Most bars tend to sell the same range of products, so they use atmospherics extensively to differentiate themselves and create a unique environment. In order for a bar to be successful and retain customers, it must monitor its atmospheric variables and focus on maintaining customer comfort levels, because most bar patrons are more recreationally and socially motivated, rather than task-motivated. The layout, for example, should create the right flow and spread the crowd to the right places, so customers don't feel claustrophobic.¹³

Exterior atmospheric elements include the appearance of the storefront, display windows, store entrances, and degree of traffic congestion. Exterior atmospherics are particularly important to new customers, who tend to judge an unfamiliar store by its outside appearance and may not enter if they feel intimidated by the building or inconvenienced by the parking lot.



Marketing Debate

Buying Food from the Drugstore

ISSUE: *Should drugstores transform a food desert into an oasis?*

Many inner-city neighborhoods have stores selling all kinds of snacks but little space devoted to fresh, nutritious foods. Now Walgreens and CVS are addressing the challenge of the “food desert” by creating a “food oasis” of fruits, vegetables, and more in selected stores. Walgreens has revamped the merchandise mix in many urban stores to feature hundreds of fresh grocery items. “We wanted to develop a daily healthy and living solutions store,” says a Walgreens executive. CVS is installing a grocery section in more than 1,000 of its stores.

Selling food through drug chains does have its downsides. Food tends to be priced higher in drugstores, and drugstores are not likely to be as efficient in food sales as stores that specialize in these areas. However, many are embracing this idea due to the convenience of one-stop shopping.^c

power shopping center

A type of shopping center that combines off-price stores with category killers

retail positioning

Identifying an unserved or underserved market segment and serving it through a strategy that distinguishes the retailer from others in the minds of consumers in that segment

atmospherics

The physical elements in a store's design that appeal to consumers' emotions and encourage buying

Atmospherics

Atmospherics in a restaurant, such as The Cheesecake Factory, can have very positive effects on the customer experience.



Craig Ruttle/MCT/Newscom

Interior atmospheric elements include aesthetic considerations such as lighting, wall and floor coverings, dressing facilities, and store fixtures. Interior sensory elements contribute significantly to atmosphere. Caesar's Palace, the hotel and casino in Las Vegas, provides a truly memorable experience for its customers by incorporating items to reflect the hotel theme, ancient Rome. The hotel and casino have marble floors, ancient Roman statues and fountain recreations including the Statue of David and Trevi Fountain, as well as sky-painted ceilings in the Forum Shops and white walls with plenty of columns. By providing customers with a truly authentic experience, the company hopes visitors will spend more at the casino, stores, restaurants, and bars.¹⁴ Color can attract shoppers to a retail display. Many fast-food restaurants use bright colors, such as red and yellow, because these have been shown to make customers feel hungrier and eat faster, which increases turnover. Sound is another important sensory component of atmosphere and may range from silence to subdued background music. Mexican restaurants, for example, usually play fast-paced Spanish music to encourage customers to dine quickly and thus increase the restaurant's turnover, whereas fancy, more expensive, restaurants tend to play softer, slower classical music to encourage customers to stay longer and spend more. Many retailers employ scent, especially food aromas, to attract customers. Most consumers expect the scent of a store to be congruent with the products that are sold there. For example, Starbucks should smell like its coffee, Panera like its freshly baked bread, and Yankee Candle like its scented candles.

CATEGORY MANAGEMENT

Category management is a retail strategy of managing groups of similar, often substitutable products produced by different manufacturers. For instance, supermarkets such as Safeway use category management to determine space for products such as cosmetics, cereals, and soups. An assortment of merchandise is both customer and strategically driven to improve performance. Category management developed in the food industry because supermarkets were concerned about highly competitive behavior among manufacturers.

category management

A retail strategy of managing groups of similar, often substitutable products produced by different manufacturers

Category management is a move toward a collaborative supply-chain initiative to enhance customer value. Successful category management requires the acquisition, analysis, and sharing of sales and consumer information between the retailer and manufacturer. Walmart, for example, has developed strong supplier relationships with manufacturers such as Procter & Gamble. The development of information about demand, consumer behavior, and optimal allocations of products should be available from one source. Firms such as SAS provide software to manage data associated with each step of the category management decision cycle. The key is cooperative interaction between the manufacturers of category products and the retailer to create maximum success for all parties in the supply chain.

Direct Marketing and Direct Selling

Although retailers are the most visible members of the supply chain, many products are sold outside the confines of a retail store. Direct selling and direct marketing account for an increasing percentage of product sales. Products also may be sold in automatic vending machines, but these account for less than 2 percent of all retail sales.

DIRECT MARKETING

Direct marketing is the use of the telephone, Internet, and nonpersonal media to communicate product and organizational information to customers, who can then purchase products via mail, telephone, or the Internet. Direct marketing is one type of nonstore retailing. Sales through direct marketing activities amount to \$1.8 trillion per year.¹⁵

Nonstore retailing is the selling of products outside the confines of a retail facility. This form of retailing accounts for an increasing percentage of total sales. Direct marketing can occur through catalog marketing, direct-response marketing, telemarketing, television home shopping, and online retailing.

Catalog Marketing

In **catalog marketing**, an organization provides a catalog from which customers make selections and place orders by mail, telephone, or the Internet. Catalog marketing began in 1872, when Montgomery Ward issued its first catalog to rural families. Today, there are more than 7,000 catalog marketing companies in the United States, as well as several retail stores, such as Chico's, that engage in catalog marketing. Some organizations offer a broad array of products through a sizeable catalog. Spiegel, for example, offers a variety of products spread over multiple product lines. Catalog companies such as Lands' End, Pottery Barn, and J. Crew offer considerable depth in just a few major lines of products. Still other catalog companies specialize in only a few products within a single line. Some catalog retailers—for instance, Cabela's and Crate & Barrel—have stores in major metropolitan areas.

The advantages of catalog retailing include efficiency and convenience for customers. The retailer benefits by being able to locate in remote, low-cost areas; save on expensive store fixtures; and reduce both personal selling and store operating expenses. On the other hand, catalog retailing is inflexible, provides limited service, and is most effective for a selected set of products.

Direct-Response Marketing

Direct-response marketing occurs when a retailer advertises a product and makes it available through mail or telephone orders. Generally, customers use a credit card, but other forms of payment may be permitted. Examples of direct-response marketing include a television commercial offering exercise machines, cosmetics or household

direct marketing

The use of the telephone, Internet, and nonpersonal media to introduce products to customers, who can then purchase them via mail, telephone, or the Internet

nonstore retailing

The selling of products outside the confines of a retail facility

catalog marketing

A type of marketing in which an organization provides a catalog from which customers make selections and place orders by mail, telephone, or the Internet

direct-response marketing

A type of marketing in which a retailer advertises a product and makes it available through mail or telephone orders

Catalog Retailing

Catalogs allow customers to shop at any time. Retailers can use catalogs to drive customers to stores and their websites.



© J Group Photo

cleaning products available through a toll-free number, and a newspaper or magazine advertisement for a series of children's books available by filling out the form in the ad or calling a toll-free number. One of the most successful direct-response initiatives in the past few years was for the Snuggie. This product was first introduced on late night TV and then made its way into retail outlets like Bed Bath & Beyond, Target, Walgreens, and eventually into pet stores like PetSmart when the Snuggie for dogs was created. The company sold 5 million Snuggies its first year.¹⁶ Direct-response marketing is also conducted by sending letters, samples, brochures, or booklets to prospects on a mailing list and asking that they order the advertised products by mail or telephone. In general, products must be priced above \$20 to justify the advertising and distribution costs associated with direct-response marketing.

Telemarketing

A number of organizations use the telephone to strengthen the effectiveness of traditional marketing methods. **Telemarketing** is the performance of marketing-related activities by telephone. Some organizations use a prescreened list of prospective clients. Telemarketing can help to generate sales leads, improve customer service, speed up payments on past-due accounts, raise funds for nonprofit organizations, and gather marketing data.

Currently, the laws and regulations regarding telemarketing, although in a state of flux, are becoming more restrictive. In 2003, Congress implemented a national do-not-call registry for consumers who do not wish to receive telemarketing calls. So far, more than 191 million phone numbers in the United States have been listed on the registry. The national registry is enforced by the Federal Trade Commission and the Federal Communications Commission, and companies are subject to a fine of up to \$16,000 for each call made to a consumer listed on the national do-not-call registry. For instance, Rascal Scooters was forced

telemarketing

The performance of marketing-related activities by telephone

to pay \$100,000 after it was charged with using phone numbers from sweepstake forms to call consumers who were on the do-not-call registry.¹⁷ Certain exceptions apply to do-not-call lists. A company still can use telemarketing to communicate with existing customers. In addition, charitable, political, and telephone survey organizations are not restricted by the national registry.

Television Home Shopping

Television home shopping presents products to television viewers, encouraging them to order through toll-free numbers and pay with credit cards. The Home Shopping Network in Florida originated and popularized this format. The most popular products sold through television home shopping are jewelry (40 percent of total sales), clothing, housewares, and electronics. Home shopping channels have grown so rapidly in recent years that more than 60 percent of U.S. households have access to home shopping programs. Home Shopping Network and QVC are two of the largest home shopping networks. Approximately 60 percent of home shopping sales revenues come from repeat purchasers.

The television home shopping format offers several benefits. Products can be demonstrated easily, and an adequate amount of time can be spent showing the product so viewers are well informed. The length of time a product is shown depends not only on the time required for doing demonstrations but also on whether the product is selling. Once the calls peak and begin to decline, a new product is shown. Other benefits are that customers can shop at their convenience and from the comfort of their homes.

Online Retailing

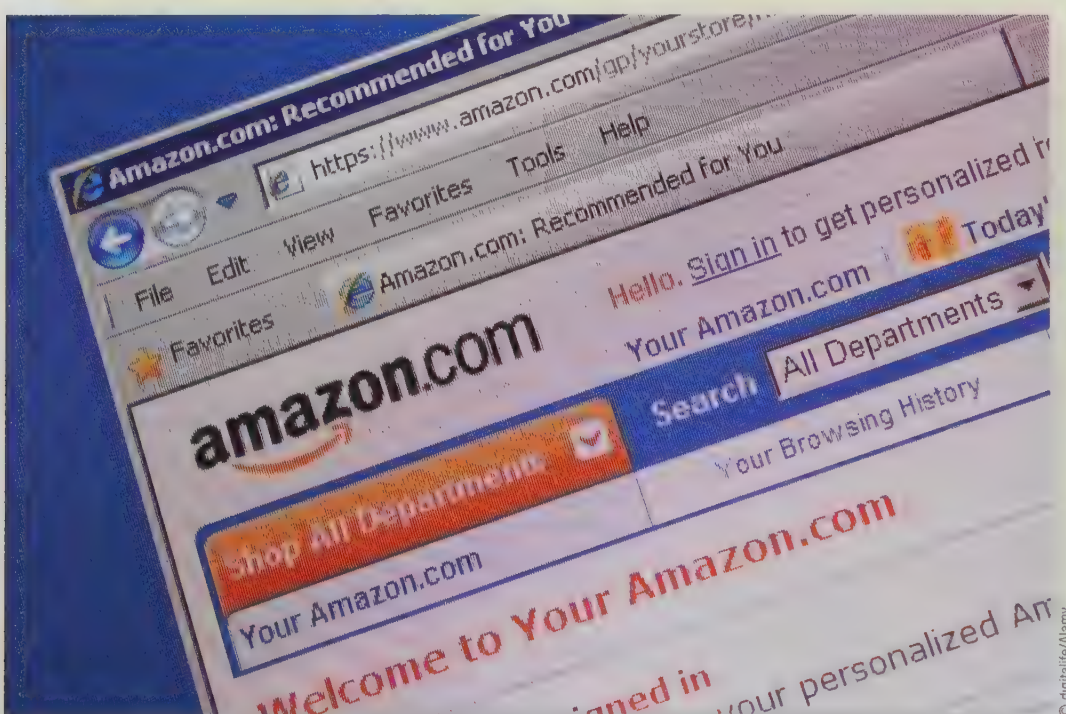
Online retailing makes products available to buyers through computer connections. The phenomenal growth of Internet use and online information services such as AOL has created new retailing opportunities. Many retailers have set up websites to disseminate information about their companies and products. Although many retailers with websites use

television home shopping

A form of selling in which products are presented to television viewers, who can buy them by calling a toll-free number and paying with a credit card

online retailing

Retailing that makes products available to buyers through computer connections



Online Retailing

Amazon.com is an online retailer of numerous products.

them primarily to promote products, a number of companies—including Barnes & Noble, REI, Lands' End, and OfficeMax—sell goods online. However, the number of companies selling online and in stores is growing dramatically as consumers demand multiple channels to obtain the goods and services they desire.

Consumers can purchase hard-to-find items, such as Pez candy dispensers and Elvis memorabilia, on eBay. They can buy upscale items for their dogs at SitStay.com, a web retailer specializing in high-end dog supplies that carries a carefully screened selection of 1,500 products. Banks and brokerage firms have established websites to give customers direct access to manage their accounts and enable them to trade online. Forrester Research projects that online retail sales in the United States will climb to nearly \$250 billion by 2014, up from \$155 billion in 2009.¹⁸ With advances in computer technology continuing and consumers ever more pressed for time, online retailing will continue to escalate.

Although online retailing represents a major retailing venue, security remains an issue. In a recent survey conducted by the Business Software Alliance, about 75 percent of Internet users expressed concerns about shopping online. The major issues are identity theft and credit card theft.

DIRECT SELLING

Direct selling is the marketing of products to ultimate consumers through face-to-face sales presentations at home or in the workplace. According to *Direct Selling News*, the top 10 global companies had sales of more than \$39 billion in 2010. In the United States, the top five companies are Avon, Amway, Herbalife, Mary Kay, and Tupperware. Direct selling was once associated with door-to-door selling but has evolved into a professional industry where most contacts with buyers are prearranged through electronic communication or personal contacts. Today, most companies identify customers through the mail, telephone, Internet, social networks, or shopping-mall intercepts and then set up appointments. Direct selling is possibly even more successful in collective societies such as China, where Amway has achieved sales greater than its sales in the United States.

Although the majority of direct selling takes place on an individual, or person-to-person, basis, it sometimes also includes the use of a group, or “party,” plan. With a party plan, a consumer acts as a host and invites friends and associates to view merchandise in a group

direct selling

Marketing products to ultimate consumers through face-to-face sales presentations at home or in the workplace

Emerging Trends in Marketing



Major Brands Party at Home

Shop at home has taken on a new meaning as major brands test direct selling through the party plan.

All kinds of goods and services are being marketed in homes worldwide these days, including Purina pet food, Rubbermaid mops, Verizon fiber-optic communications services, and Microsoft software.

When Microsoft introduced its Windows 7 operating system, the company hired a company called House Party to recruit 50,000 hosts for parties in the United States, Europe, and Asia.

Microsoft provided each host with a free copy of the software, a tote bag, a deck of cards, and party favors. Hosts enjoyed the status of being among the first to own the software. Guests liked being able to preview the new software and discuss it with friends in a relaxed, party atmosphere. Just as important, the photos, videos, blog entries, and tweets posted online by hosts and guests kept the positive buzz going strong long after the parties were over.^d

setting, where a salesperson demonstrates products. The congenial party atmosphere helps to overcome customers' reluctance and encourages them to buy. Tupperware and Mary Kay were the pioneers of this selling technique, paving the way for companies such as Pampered Chef to grow from a basement business into a corporation that brings in more than \$500 million in revenues annually.¹⁹

Direct selling has both benefits and limitations. It gives the marketer an opportunity to demonstrate the product in an environment—usually customers' homes—where it most likely would be used. The door-to-door seller can give the customer personal attention, and the product can be presented to the customer at a convenient time and location. Product categories that have been highly successful for direct selling include cosmetics and personal-care products, health products, jewelry, accessories, and household products. Personal attention to the customer is the foundation on which some direct sellers, such as Mary Kay, have built their businesses. Because commissions for salespeople are so high, ranging from 30 to 50 percent of the sales price, and great effort is required to isolate promising prospects, overall costs of direct selling make it the most expensive form of retailing. Furthermore, some customers view direct selling negatively, owing to unscrupulous and fraudulent practices used by some direct sellers in the past. Some communities even have local ordinances that control or, in some cases, prohibit direct selling. Despite these negative views held by some individuals, direct selling is still alive and well, bringing in annual revenues of \$30 billion in the United States and \$114 billion worldwide.²⁰

AUTOMATIC VENDING

Automatic vending is the use of machines to dispense products. It accounts for less than 2 percent of all retail sales. Video game machines provide an entertainment service, and most banks offer automatic teller machines (ATMs), which dispense cash and perform other services.

Automatic vending is one of the most impersonal forms of retailing. Small, standardized, routinely purchased products (e.g., chewing gum, candy, newspapers, soft drinks, coffee) can be sold in machines because consumers usually buy them at the nearest available location. Redbox vending machines have started a new form of vending: DVD rentals. These machines allow customers to rent DVDs at a time that is convenient for them, without a membership and from their choice of more than 26,000 locations.²¹ Machines in areas of heavy foot traffic provide efficient and continuous service to consumers. Such high-volume areas may have more diverse product availability—for example, hot and cold sandwiches and even upscale merchandise. ZoomSystems, for example, operates vending machines that market products from Best Buy, Apple, Proactiv, and Reebok.²²

Because vending machines need only a small amount of space and no sales personnel, this retailing method has some advantages over stores. The advantages are partly offset, however, by the high costs of equipment and frequent servicing and repairs.

Franchising

Franchising is an arrangement in which a supplier, or franchiser, grants a dealer, or franchisee, the right to sell products in exchange for some type of consideration. The franchiser may receive some percentage of total sales in exchange for furnishing equipment, buildings, management know-how, and marketing assistance to the franchisee. The franchisee supplies labor and capital, operates the franchised business, and agrees to abide by the provisions of the franchise agreement. Table 15.2 lists the leading U.S. franchises, types of products, number of franchise outlets, and startup costs.

automatic vending

The use of machines to dispense products

franchising

An arrangement in which a supplier (franchiser) grants a dealer (franchisee) the right to sell products in exchange for some type of consideration

TABLE 15.2 Top U.S. Franchisers and Their Startup Costs

Rank	Franchise and Description	Number of Franchise Outlets Worldwide	Startup Costs
1	Hampton Hotels Mid-priced hotels	1,753	\$3,716,000–\$13,148,800
2	ampm Convenience store and gas station	3,177	\$1,786,929–\$7,596,688
3	McDonald's Hamburgers, chicken, salads	26,209	\$1,057,200–\$1,885,000
4	7-Eleven Inc. Convenience store	37,039	\$30,800–\$604,500
5	Supercuts Hair salon	1,035	\$119,350–\$196,550
6	Days Inn Hotels	1,857	\$192,291–\$6,479,764
7	Vanguard Cleaning Systems Commercial cleaning	1,847	\$8,200–\$38,100
8	Servpro Insurance/disaster restoration and cleaning	1,526	\$127,300–\$174,700
9	Subway Submarine sandwiches and salads	33,188	\$84,300–\$258,300
10	Denny's Inc. Full-service family restaurant	1,374	\$1,125,609–\$2,396,419

Source: "2011 Franchise 500," *Entrepreneur*, www.entrepreneur.com/franchise500/index.html (accessed April 25, 2011). Copyright © 2011 Entrepreneur Media, Inc.

Because of changes in the international marketplace, shifting employment options in the United States, the expanding U.S. service economy, and corporate interest in more joint venture activity, franchising is increasing rapidly. There are more than 765,000 franchised small businesses in more than 100 industries. Franchised businesses produce an estimated \$705 billion in output per year and employ about 7.6 million people.²³

Franchising offers several advantages to both the franchisee and the franchiser. It enables a franchisee to start a business with limited capital and benefit from the business experience of others. Moreover, nationally advertised franchises, such as ServiceMaster and Burger King, are often assured of customers as soon as they open. If business problems arise, the franchisee can obtain guidance and advice from the franchiser at little or no cost. Franchised outlets are generally more successful than independently owned businesses. Fewer than 10 percent of franchised retail businesses fail during the first two years of operation, compared to approximately 50 percent of independent retail businesses. Also, the franchisee receives materials to use in local advertising and can benefit from national promotional campaigns sponsored by the franchiser.

Through franchise arrangements, the franchiser gains fast and selective product distribution without incurring the high cost of constructing and operating its own outlets. The franchiser therefore has more capital for expanding production and advertising. It can also ensure, through the franchise agreement, that outlets are maintained and operated according to its own standards. Some franchisers, however, permit their franchisees to modify their menus, hours, or other operating elements to better match their target market's needs. The franchiser benefits from the fact that the franchisee, being a sole proprietor in most cases, is likely to be very highly motivated to succeed. Success of the franchise means more sales, which translate into higher income for the franchiser.

Franchise arrangements also have several drawbacks. The franchiser can dictate many aspects of the business: decor, menu, design of employees' uniforms, types of signs, hours of operation, and numerous details of business operations. In addition, franchisees must pay to use the franchiser's name, products, and assistance. Usually there is a one-time franchise fee and continuing royalty and advertising fees, often collected as a percentage of sales. Franchisees often must work very hard, putting in 10- to 12-hour days six or seven days a week. In some cases, franchise agreements are not uniform; one franchisee may pay more than another for the same services. Finally, the franchiser gives up a certain amount of control when entering into a franchise agreement. Consequently, individual establishments may not be operated exactly according to the franchiser's standards.



© Scott Olson/Getty Images

Franchising

Subway operates many franchise restaurants throughout the world.

Wholesaling

Wholesaling refers to all transactions in which products are bought for resale, for making other products, or for general business operations. It does not include exchanges with ultimate consumers. A **wholesaler** is an individual or organization that sells products that are bought for resale, making other products, or general business operations. In other words, wholesalers buy products and resell them to reseller, government, and institutional users. For instance, Sysco, the nation's number-one food-service distributor, supplies restaurants, hotels, schools, industrial caterers, and hospitals with everything from frozen and fresh food and paper products to medical and cleaning supplies. Wholesaling activities are not limited to goods; service companies, such as financial institutions, also use active wholesale networks. There are more than 430,000 wholesaling establishments in the United States, and more than half of all products sold in this country pass through these firms.²⁴

Wholesalers may engage in many supply-chain management activities, including warehousing, shipping and product handling, inventory control, information system management and data processing, risk taking, financing, budgeting, and even marketing research and promotion. Regardless of whether there is a wholesaling firm involved in the supply chain, all product distribution requires the performance of these activities. In addition to bearing the primary responsibility for the physical distribution of products from manufacturers to retailers, wholesalers may establish information systems that help producers and retailers better manage the supply chain from producer to customer. Many wholesalers are using information technology and the Internet to allow their employees, customers,

wholesaling

Transactions in which products are bought for resale, for making other products, or for general business operations

wholesaler

An individual or organization that sells products that are bought for resale, for making other products, or for general business operations

and suppliers to share information between intermediaries and facilitating agencies such as trucking companies and warehouse firms. Other firms are making their databases and marketing information systems available to their supply-chain partners to facilitate order processing, shipping, and product development and to share information about changing market conditions and customer desires. As a result, some wholesalers play a key role in supply-chain management decisions.

SERVICES PROVIDED BY WHOLESALERS

Wholesalers provide essential services to both producers and retailers. By initiating sales contacts with a producer and selling diverse products to retailers, wholesalers serve as an extension of the producer's sales force. Wholesalers also provide financial assistance. They often pay for transporting goods; reduce a producer's warehousing expenses and inventory investment by holding goods in inventory; extend credit and assume losses from buyers who turn out to be poor credit risks; and, when they buy a producer's entire output and pay promptly or in cash, are a source of working capital. Wholesalers also serve as conduits for information within the marketing channel, keeping producers up-to-date on market developments and passing along the manufacturers' promotional plans to other intermediaries. Using wholesalers therefore gives producers a distinct advantage because the specialized services wholesalers perform allow producers to concentrate on developing and manufacturing products that match customers' needs and wants.

Wholesalers support retailers by assisting with marketing strategy, especially the distribution component. Wholesalers also help retailers select inventory. They are often specialists on market conditions and experts at negotiating final purchases. In industries in which obtaining supplies is important, skilled buying is indispensable. For instance, Atlanta-based Genuine Parts Company (GPC), the nation's top automotive parts wholesaler, has more than 80 years of experience in the auto parts business, which helps it serve its customers effectively. GPC supplies more than 300,000 replacement parts (from about 150 different suppliers) to about 1,000 NAPA Auto Parts stores.²⁵ Effective wholesalers make an effort to understand the businesses of their customers. They can reduce a retailer's burden of looking for and coordinating supply sources. If the wholesaler purchases for several different buyers, expenses can be shared by all customers. Furthermore, whereas a manufacturer's salesperson offers retailers only a few products at a time, independent wholesalers always have a wide range of products available. Thus, through partnerships, wholesalers and retailers can forge successful relationships for the benefit of customers.

The distinction between services performed by wholesalers and those provided by other businesses has blurred in recent years. Changes in the competitive nature of business, especially the growth of strong retail chains like Walmart, Home Depot, and Best Buy, are changing supply-chain relationships. In many product categories, such as electronics, furniture, and even food products, retailers have discovered that they can deal directly with producers, performing wholesaling activities themselves at a lower cost. An increasing number of retailers are relying on computer technology to expedite ordering, delivery, and handling of goods. Technology is thus allowing retailers to take over many wholesaling functions. However, when a wholesaler is eliminated from a marketing channel, wholesaling activities still have to be performed by a member of the supply chain, whether a producer, retailer, or facilitating agency. These wholesaling activities are critical components of supply-chain management.

TYPES OF WHOLESALERS

Wholesalers are classified according to several criteria. Whether a wholesaler is independently owned or owned by a producer influences how it is classified. Wholesalers also can be

grouped according to whether they take title to (own) the products they handle. The range of services provided is another criterion used for classification. Finally, wholesalers are classified according to the breadth and depth of their product lines. Using these criteria, we discuss three general types of wholesaling establishments: merchant wholesalers, agents and brokers, and manufacturers' sales branches and offices.

Merchant Wholesalers

Merchant wholesalers are independently owned businesses that take title to goods, assume risks associated with ownership, and generally buy and resell products to other wholesalers, business customers, or retailers. A producer is likely to rely on merchant wholesalers when selling directly to customers would be economically unfeasible. Merchant wholesalers are also useful for providing market coverage, making sales contacts, storing inventory, handling orders, collecting market information, and furnishing customer support. Some merchant wholesalers are even involved in packaging and developing private brands to help retail customers be competitive. Merchant wholesalers go by various names, including *wholesaler*, *jobber*, *distributor*, *assembler*, *exporter*, and *importer*. They fall into one of two broad categories: full service and limited service (see Figure 15.1).

FULL-SERVICE WHOLESALERS **Full-service wholesalers** perform the widest possible range of wholesaling functions. Customers rely on them for product availability, suitable assortments, breaking large quantities into smaller ones, financial assistance, and technical advice and service. Universal Corporation, the world's largest buyer and processor of leaf tobacco, is an example of a full-service wholesaler. Based in Richmond, Virginia, the firm buys, processes, resells, and ships tobacco and provides financing for its customers, which include cigarette manufacturers such as Philip Morris (which accounts for a significant portion of Universal's sales). Universal is also involved in sales of lumber, building products, and other agricultural products and has operations in 35 countries.²⁶ Full-service wholesalers handle either consumer or business products and provide numerous marketing services to their customers. Many large grocery wholesalers help retailers with store design, site selection, personnel training, financing, merchandising, advertising, coupon redemption, and scanning. Although full-service wholesalers often earn

merchant wholesalers

Independently owned businesses that take title to goods, assume ownership risks, and buy and resell products to other wholesalers, business customers, or retailers

full-service wholesalers

Merchant wholesalers that perform the widest range of wholesaling functions

FIGURE 15.1 Types of Merchant Wholesalers



higher gross margins than other wholesalers, their operating expenses are also higher because they perform a wider range of functions.

Full-service wholesalers are categorized as general-merchandise, limited-line, and specialty-line wholesalers. **General-merchandise wholesalers** carry a wide product mix but offer limited depth within product lines. They deal in products such as drugs, nonperishable foods, cosmetics, detergents, and tobacco. **Limited-line wholesalers** carry only a few product lines, such as groceries, lighting fixtures, or oil-well-drilling equipment, but offer an extensive assortment of products within those lines. Bergen Brunswig Corporation, for example, is a limited-line wholesaler of pharmaceuticals and health and beauty aids.

General-line wholesalers provide a range of services similar to those of general-merchandise wholesalers. **Specialty-line wholesalers** offer the narrowest range of products, usually a single product line or a few items within a product line. Red River Commodities Inc., for example, is the leading importer (specialty-line wholesaler) of nuts, seeds, and dried fruits in the United States.²⁷ **Rack jobbers** are full-service, specialty-line wholesalers that own and maintain display racks in supermarkets, drugstores, and discount and variety stores. They set up displays, mark merchandise, stock shelves, and keep billing and inventory records; retailers need furnish only space. Rack jobbers specialize in nonfood items with high profit margins, such as health and beauty aids, books, magazines, hosiery, and greeting cards.

LIMITED-SERVICE WHOLESALERS **Limited-service wholesalers** provide fewer marketing services than do full-service wholesalers and specialize in just a few functions. Producers perform the remaining functions or pass them on to customers or other intermediaries. Limited-service wholesalers take title to merchandise but often do not deliver merchandise, grant credit, provide marketing information, store inventory, or plan ahead for customers' future needs. Because they offer restricted services, limited-service wholesalers are compensated with lower rates and have smaller profit margins than full-service wholesalers. The decision about whether to use a limited-service or a full-service wholesaler depends on the structure of the marketing channel and the need to manage the supply chain to provide competitive advantage. Although certain types of limited-service wholesalers are few in number, they are important in the distribution of products such as specialty foods, perishable items, construction materials, and coal.

Table 15.3 summarizes the services provided by four typical limited-service wholesalers: cash-and-carry wholesalers, truck wholesalers, drop shippers, and mail-order wholesalers.

general-merchandise wholesalers

Full-service wholesalers with a wide product mix but limited depth within product lines

limited-line wholesalers

Full-service wholesalers that carry only a few product lines but many products within those lines

specialty-line wholesalers

Full-service wholesalers that carry only a single product line or a few items within a product line

rack jobbers

Full-service, specialty-line wholesalers that own and maintain display racks in stores

limited-service wholesalers

Merchant wholesalers that provide some services and specialize in a few functions

TABLE 15.3 Services that Limited-Service Wholesalers Provide

	Cash-and-Carry	Truck	Drop Shipper	Mail Order
Physical possession of merchandise	Yes	Yes	No	Yes
Personal sales calls on customers	No	Yes	No	No
Information about market conditions	No	Some	Yes	Yes
Advice to customers	No	Some	Yes	No
Stocking and maintenance of merchandise in customers' stores	No	No	No	No
Credit to customers	No	No	Yes	Some
Delivery of merchandise to customers	No	Yes	No	No

Cash-and-carry wholesalers are intermediaries whose customers—usually small businesses—pay cash and furnish transportation. Cash-and-carry wholesalers usually handle a limited line of products with a high turnover rate, such as groceries, building materials, and electrical or office supplies. Many small retailers whose accounts are refused by other wholesalers survive because of cash-and-carry wholesalers. **Truck wholesalers**, sometimes called *truck jobbers*, transport a limited line of products directly to customers for on-the-spot inspection and selection. They are often small operators who own and drive their own trucks. They usually have regular routes, calling on retailers and other institutions to determine their needs. **Drop shippers**, also known as *desk jobbers*, take title to products and negotiate sales but never take actual possession of products. They forward orders from retailers, business buyers, or other wholesalers to manufacturers and arrange for carload shipments of items to be delivered directly from producers to these customers. They assume responsibility for products during the entire transaction, including the costs of any unsold goods. **Mail-order wholesalers** use catalogs instead of sales forces to sell products to retail and business buyers. Wholesale mail-order houses generally feature cosmetics, specialty foods, sporting goods, office supplies, and automotive parts. Mail-order wholesaling enables buyers to choose and order particular catalog items for delivery through UPS, the U.S. Postal Service, or other carriers. This is a convenient and effective method of selling small items to customers in remote areas that other wholesalers might find unprofitable to serve. The Internet has provided an opportunity for mail-order wholesalers to sell products over their own websites and have the products shipped by the manufacturers.

Agents and Brokers

Agents and brokers negotiate purchases and expedite sales but do not take title to products (see Figure 15.2). Sometimes called *functional middlemen*, they perform a limited number of services in exchange for a commission, which generally is based on the product's selling price. **Agents** represent either buyers or sellers on a permanent basis, whereas **brokers** are intermediaries that buyers or sellers employ temporarily.

Although agents and brokers perform even fewer functions than limited-service wholesalers, they are usually specialists in particular products or types of customers and

cash-and-carry wholesalers

Limited service wholesalers whose customers pay cash and furnish transportation

truck wholesalers

Limited-service wholesalers that transport products directly to customers for inspection and selection

drop shippers

Limited-service wholesalers that take title to goods and negotiate sales but never actually take possession of products

mail-order wholesalers

Limited-service wholesalers that sell products through catalogs

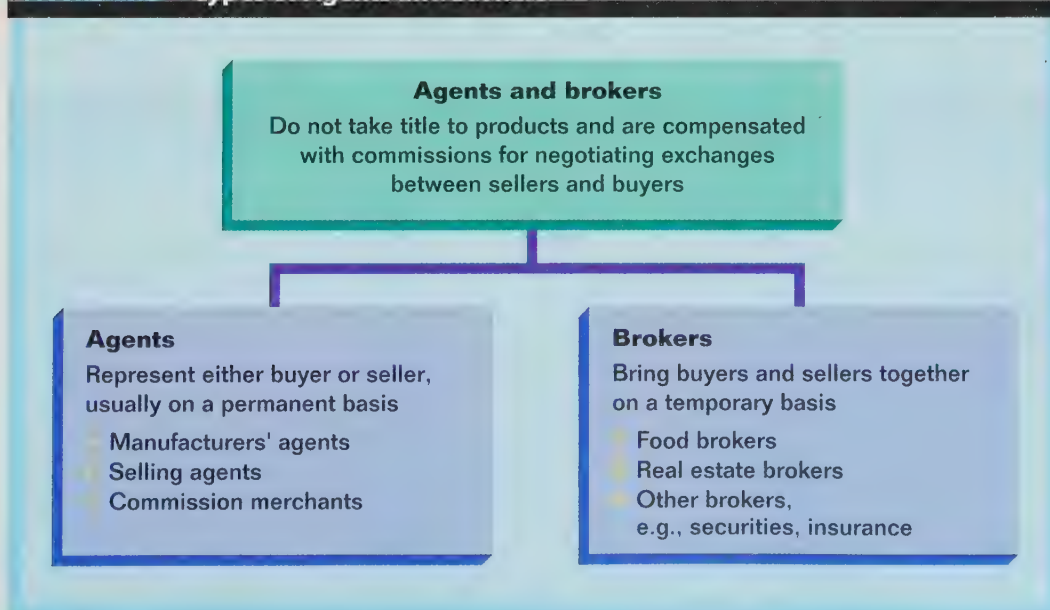
agents

Intermediaries that represent either buyers or sellers on a permanent basis

brokers

Intermediaries that bring buyers and sellers together temporarily

FIGURE 15.2 Types of Agents and Brokers



can provide valuable sales expertise. They know their markets well and often form long-lasting associations with customers. Agents and brokers enable manufacturers to expand sales when resources are limited, benefit from the services of a trained sales force, and hold down personal selling costs. Table 15.4 summarizes the services provided by agents and brokers.

Manufacturers' agents, which account for more than half of all agent wholesalers, are independent intermediaries that represent two or more sellers and usually offer customers complete product lines. They sell and take orders year-round, much as a manufacturer's sales force does. Restricted to a particular territory, a manufacturer's agent handles noncompeting and complementary products. The relationship between the agent and the manufacturer is governed by written contracts that outline territories, selling price, order handling, and terms of sale relating to delivery, service, and warranties. Manufacturers' agents have little or no control over producers' pricing and marketing policies. They do not extend credit and may be unable to provide technical advice. Manufacturers' agents are commonly used in sales of apparel, machinery and equipment, steel, furniture, automotive products, electrical goods, and certain food items.

Selling agents market either all of a specified product line or a manufacturer's entire output. They perform every wholesaling activity except taking title to products. Selling agents usually assume the sales function for several producers simultaneously and are used often in place of marketing departments. In fact, selling agents are used most often by small producers or by manufacturers that have difficulty maintaining a marketing department because of seasonal production or other factors. In contrast to manufacturers' agents, selling agents generally have no territorial limits and have complete authority over prices, promotion, and distribution. To avoid conflicts of interest, selling agents represent noncompeting product lines. They play a key role in advertising, marketing research, and credit policies of the sellers they represent, at times even advising on product development and packaging.

Commission merchants receive goods on consignment from local sellers and negotiate sales in large, central markets. Sometimes called *factor merchants*, these agents have broad powers regarding prices and terms of sale. They specialize in obtaining the best price possible under market conditions. Most often found in agricultural marketing, commission merchants take possession of truckloads of commodities, arrange for necessary grading or storage, and transport the commodities to auction or markets where they are sold. When sales are completed, the agents deduct commission and the expense of

manufacturers' agents

Independent intermediaries that represent two or more sellers and usually offer customers complete product lines

selling agents

Intermediaries that market a whole product line or a manufacturer's entire output

commission merchants

Agents that receive goods on consignment from local sellers and negotiate sales in large, central markets

TABLE 15.4 Services that Agents and Brokers Provide

	Manufacturers' Agents	Selling Agents	Commission Merchants	Brokers
Physical possession of merchandise	Some	Some	Yes	No
Long-term relationship with buyers or sellers	Yes	Yes	Yes	No
Representation of competing product lines	No	No	Yes	Yes
Limited geographic territory	Yes	No	No	No
Credit to customers	No	Yes	Some	No
Delivery of merchandise to customers	Some	Yes	Yes	No

making the sale and then turn over profits to the producer. Commission merchants also offer planning assistance and sometimes extend credit but usually do not provide promotional support.

A broker's primary purpose is to bring buyers and sellers together. Thus, brokers perform fewer functions than other intermediaries. They are not involved in financing or physical possession, have no authority to set prices, and assume almost no risks. Instead, they offer customers specialized knowledge of a particular commodity and a network of established contacts. Brokers are especially useful to sellers of certain types of products, such as supermarket products and real estate. Food brokers, for example, sell food and general merchandise to retailer-owned and merchant wholesalers, grocery chains, food processors, and business buyers.

Manufacturers' Sales Branches and Offices

Sometimes called *manufacturers' wholesalers*, manufacturers' sales branches and offices resemble merchant wholesalers' operations. **Sales branches** are manufacturer-owned intermediaries that sell products and provide support services to the manufacturer's sales force. Situated away from the manufacturing plant, they are usually located where large customers are concentrated and demand is high. They offer credit, deliver goods, give promotional assistance, and furnish other services. Customers include retailers, business buyers, and other wholesalers. Manufacturers of electrical supplies, such as Westinghouse Electric, and of plumbing supplies, such as American Standard, often have branch operations. They are also common in the lumber and automotive parts industries.

Sales offices are manufacturer-owned operations that provide services normally associated with agents. Like sales branches, they are located away from manufacturing plants, but unlike sales branches, they carry no inventory. A manufacturer's sales office (or branch) may sell products that enhance the manufacturer's own product line.

Manufacturers may set up these branches or offices to reach their customers more effectively by performing wholesaling functions themselves. A manufacturer also may set up such a facility when specialized wholesaling services are not available through existing intermediaries. A manufacturer's performance of wholesaling and physical distribution activities through its sales branch or office may strengthen supply-chain efficiency. In some situations, though, a manufacturer may bypass its sales office or branches entirely—for example, if the producer decides to serve large retailer customers directly.

sales branches

Manufacturer-owned intermediaries that sell products and provide support services to the manufacturer's sales force

sales offices

Manufacturer-owned operations that provide services normally associated with agents

CHAPTER REVIEW

1 Understand the purpose and function of retailers in the marketing channel.

Retailing includes all transactions in which buyers intend to consume products through personal, family, or household use. Retailers, organizations that sell products primarily to ultimate consumers, are important links in the marketing channel because they are both marketers for and customers of wholesalers and producers. Retailers add value, provide services, and assist in making product selections.

2 Identify the major types of retailers.

Retail stores can be classified according to the breadth of products offered. Two broad categories are general merchandise retailers and specialty retailers. The primary types of general merchandise retailers include department stores, which are large retail organizations organized by departments and characterized by wide product mixes in considerable depth; discount stores, which are self-service, low-price, general merchandise outlets; convenience stores, which are small self-service stores that are open long hours and carry a narrow assortment of products, usually convenience items; supermarkets, which are large self-service food stores that carry some nonfood products; superstores, which are giant retail outlets that carry all the products found in supermarkets and most consumer products purchased on a routine basis; hypermarkets, which offer supermarket and discount store shopping at one location; warehouse clubs, which are large-scale, members-only discount operations; and warehouse and catalog showrooms, which are low-cost operations characterized by warehouse methods of materials handling and display, large inventories, and minimal services.

Specialty retailers offer substantial assortments in a few product lines. They include traditional specialty retailers, which carry narrow product mixes with deep product lines; category killers, large specialty stores that concentrate on a major product category and compete on the basis of low prices and enormous product availability; and off-price retailers, which sell brand name manufacturers' seconds and product overruns at deep discounts.

3 Explore strategic issues in retailing.

To increase sales and store patronage, retailers must consider strategic issues. Location determines the trading area from which a store draws its customers and should be evaluated carefully. When evaluating potential sites, retailers take into account a variety of factors, including the location of the firm's target market within the trading area, kinds of products sold, availability of public transportation, customer characteristics, and competitors' locations. Retailers can choose among several types of locations, including free-standing structures, traditional business districts, traditional planned shopping centers (neighborhood, community, regional, and superregional), or nontraditional shopping centers (lifestyle, power, and outlet).

Retail positioning involves identifying an unserved or underserved market segment and serving it through a strategy that distinguishes the retailer from others in those customers' minds. Store image, which various customers perceive differently, derives not only from atmospherics but also from location, products offered, customer services, prices, promotion, and the store's overall reputation. Atmospherics refers to the physical elements of a store's design that can be adjusted to appeal to consumers' emotions and thus induce them to buy. Category management is a retail strategy of managing groups of similar, often substitutable products produced by different manufacturers.

4 Recognize the various forms of direct marketing and selling.

Direct marketing is the use of the telephone, Internet, and nonpersonal media to communicate product and organizational information to customers, who can then purchase products via mail, telephone, or the Internet. Direct marketing is a type of nonstore retailing, the selling of goods or services outside the confines of a retail facility. Direct marketing may occur through a catalog (catalog marketing), advertising (direct response marketing), telephone (telemarketing), television (television home shopping), or online (online retailing). Two other types of nonstore retailing are direct selling and automatic

vending. Direct selling is the marketing of products to ultimate consumers through face-to-face sales presentations at home or in the workplace. Automatic vending is the use of machines to dispense products.

5 Examine franchising and its benefits and weaknesses.

Franchising is an arrangement in which a supplier grants a dealer the right to sell products in exchange for some type of consideration. Franchise arrangements have a number of advantages and disadvantages over traditional business forms, and their use is increasing.

6 Understand the nature and functions of wholesaling.

Wholesaling consists of all transactions in which products are bought for resale, making other products, or general business operations. Wholesalers are individuals or organizations that facilitate and expedite exchanges that are primarily wholesale transactions. For producers, wholesalers are a source of financial assistance and information; by performing specialized accumulation and allocation functions, they allow producers to concentrate on manufacturing products. Wholesalers provide retailers with buying expertise, wide product lines, efficient distribution, and warehousing and storage.

7 Understand how wholesalers are classified.

Merchant wholesalers are independently owned businesses that take title to goods and assume ownership risks. They are either full-service wholesalers, offering the widest possible range of wholesaling functions, or limited-service wholesalers, providing only some marketing services

and specializing in a few functions. Full-service merchant wholesalers include general-merchandise wholesalers, which offer a wide but relatively shallow product mix; limited-line wholesalers, which offer extensive assortments within a few product lines; specialty-line wholesalers, which carry only a single product line or a few items within a line; and rack jobbers, which own and service display racks in supermarkets and other stores. Limited-service merchant wholesalers include cash-and-carry wholesalers, which sell to small businesses, require payment in cash, and do not deliver; truck wholesalers, which sell a limited line of products from their own trucks directly to customers; drop shippers, which own goods and negotiate sales but never take possession of products; and mail-order wholesalers, which sell to retail and business buyers through direct-mail catalogs.

Agents and brokers negotiate purchases and expedite sales in exchange for a commission, but they do not take title to products. Usually specializing in certain products, they can provide valuable sales expertise. Whereas agents represent buyers or sellers on a permanent basis, brokers are intermediaries that buyers and sellers employ on a temporary basis to negotiate exchanges. Manufacturers' agents offer customers the complete product lines of two or more sellers. Selling agents market a complete product line or a producer's entire output and perform every wholesaling function except taking title to products. Commission merchants are agents that receive goods on consignment from local sellers and negotiate sales in large, central markets.

Manufacturers' sales branches and offices are owned by manufacturers. Sales branches sell products and provide support services for the manufacturer's sales force in a given location. Sales offices carry no inventory and function much as agents do.

ONLINE RESOURCES

Please visit the student website at www.cengagebrain.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

retailing 428	lifestyle shopping center 438	full-service wholesalers 449
retailer 428	power shopping center 439	general-merchandise wholesalers 450
general-merchandise retailer 430	retail positioning 439	limited-line wholesalers 450
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ISSUES FOR DISCUSSION AND REVIEW

1. What value is added to a product by retailers? What value is added by retailers for producers and ultimate consumers?
2. What are the major differences between discount stores and department stores?
3. In what ways are traditional specialty stores and off-price retailers similar? How do they differ?
4. What major issues should be considered when determining a retail site location?
5. Describe the three major types of traditional shopping centers. Give an example of each type in your area.
6. Discuss the major factors that help to determine a retail store's image. How does atmosphere add value to products sold in a store?
7. How is door-to-door selling a form of retailing? Some consumers believe that direct-response orders bypass the retailer. Is this true?
8. If you were opening a retail business, would you prefer to open an independent store or own a store under a franchise arrangement? Explain your preference.
9. What services do wholesalers provide to producers and retailers?
10. What is the difference between a full-service merchant wholesaler and a limited-service merchant wholesaler?
11. Drop shippers take title to products but do not accept physical possession of them, whereas commission merchants take physical possession of products but do not accept title. Defend the logic of classifying drop shippers as merchant wholesalers and commission merchants as agents.
12. Why are manufacturers' sales offices and branches classified as wholesalers? Which independent wholesalers are replaced by manufacturers' sales branches? By sales offices?

MARKETING APPLICATIONS

1. Juanita wants to open a small retail store that specializes in high-quality, high-priced children's clothing. What types of competitors should she be concerned about in this competitive retail environment? Why?
2. Location of retail outlets is an issue in strategic planning. What initial steps would you recommend to Juanita (see Marketing Application 1) when she considers a location for her store?
3. Visit a retail store you shop in regularly or one in which you would like to shop. Identify the store, and describe its atmospherics. Be specific about both exterior and interior elements, and indicate how the store is being positioned through its use of atmospherics.
4. Contact a local retailer you patronize, and ask the store manager to describe the store's relationship with one of its wholesalers. Using your text as a

guide, identify the distribution activities performed by the wholesaler. Are any of these activities shared by both the retailer and the wholesaler? How do these activities benefit the retailer? How do they benefit you as a consumer?

ONLINE EXERCISE

5. Walmart provides a website where customers can shop for products, search for a nearby store, and even preorder new products. The website lets browsers see what is on sale and view company information. Access Walmart's company website at **www.walmart.com**.
 - a. How does Walmart attempt to position itself on its website?
 - b. Compare the atmospherics of Walmart's website to the atmospherics of a traditional Walmart store. Are they consistent? If not, should they be?

DEVELOPING YOUR MARKETING PLAN

Distribution decisions in the marketing plan entail the movement of your product from the producer until it reaches the final consumer. An understanding of how and where your customer prefers to purchase products is critical to the development of the marketing plan. As you apply the information in this chapter to your plan, focus on the following issues:

1. Considering your product's attributes and your target market's (or markets') buying behavior, will your product likely be sold to the ultimate customer or to another member of the marketing channel?
2. If your product will be sold to the ultimate customer, what type of retailing establishment is most suitable to your product? Consider the product's characteristics and your target market's buying behavior. Refer to Table 15.1 for retailer types.

3. Discuss how the characteristics of the retail establishment, such as location and store image, have an impact on the consumer's perception of your product.
4. Are direct marketing or direct selling methods appropriate for your product and target market?
5. If your product will be sold to another member in the marketing channel, discuss whether a merchant wholesaler, agent, or broker is most suitable as your channel customer.

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at **www.cengagebrain.com**.



VIDEO CASE

EASTERN MOUNTAIN SPORTS IS POISED TO CLIMB HIGHER

One of the original outdoor specialty retailers, Eastern Mountain Sports (EMS), was founded by two Massachusetts-based rock climbers, Alan McDonough and Roger Furst, in 1967. Their venture emerged out of frustration when trying to purchase suitable ice-climbing axes within the United States. They saw a market need and decided to fill it themselves.

Shortly after opening their retail outlet, McDonough and Furst also opened the first mountain-climbing school in the United States, the Eastern Mountain Sports Rock Climbing School. From that first location, the school grew and now has five locations and eight East Coast satellite schools, making it not only the oldest but also the largest climbing school in the country. Since their foundation, the retail store and the school have worked hand-in-glove by teaching people how to be expert climbers and then selling them the gear they will need to pursue the sport.

McDonough and Furst were never committed to being businessmen, and after a decade of running EMS, they sold it in 1979. Over the next 15 years, EMS changed owners several times before landing under the ownership of a management team led by Eastern Mountain Sports CEO Will Manzer in 2004.

With dozens of stores in 16 states, the turnover in ownership didn't stunt the company's growth, but it did have an impact on its original vision—equipping the extreme-sport enthusiast—and subsequently resulted in some financial turbulence. Under the various owners succeeding McDonough and Furst, EMS began to transition toward more mainstream gear, including items such as everyday backpacks. By 2003, when Manzer took over, the company had become a "Gap with climbing ropes," as he described it. In his view, EMS had no real distinguishing characteristics and stocked the same equipment offered by numerous other chains.

Manzer was determined to take the company back to its roots of serving climbers, hikers, bikers, and other extreme-lifestyle seekers. Although some people thought this would be risky, the goal was to help EMS regain its focus and earn the loyalty of its original target market. Manzer hoped to differentiate the company from the competition by becoming the go-to place for the best gear.

As a result, EMS has become the company that will stock \$1,400 sea kayaks with ergonomic foot contours and waterproof storage areas. It may sell only a few, but hardcore outdoor enthusiasts know that they can go to EMS and always find what they need.

EMS's online retailing operations bring in significant revenue, which is why it has taken steps to ensure that its website and customer service are top-notch. The company also uses business intelligence software to track consumer preferences and get a better idea of what consumers at each location would like and in what quantity. Everyone from the CEO down to a store manager has access to the same data, making it easier to see which products and promotions are successful in order to better create successful promotions, store layouts, and stock decisions.

With high-tech software support and a renewed focus on target market, EMS's success has climbed despite increasingly difficult economic times. In fact, the chain's locations now span the Eastern seaboard, from Maine to Virginia, although the website gives EMS a national presence. New store locations have extended product lines, including a revised design meant to appeal to young consumers and features like custom bike shops with around-the-clock technicians. Highlighting bike offerings is a strategy that is paying off in times when people are searching for cheap means of transportation.

These days, the company is still opening new stores, but it's also moving out of shopping centers as older leases come up for renewal. It now prefers 15,000-square-foot free-standing stores located in lifestyle shopping centers or urban centers, ideally in or near areas where people enjoy outdoor activities. The recession hurt the entire retail industry, and EMS was no exception, so it has been keeping a close eye on expenses as the economy improves. The retailer is also boosting profit margins by stocking more private-branded products. Given EMS's renewed focus on core customers, and its most recent decisions about choosing retail locations, the company is poised to climb even higher in the coming years.²⁸

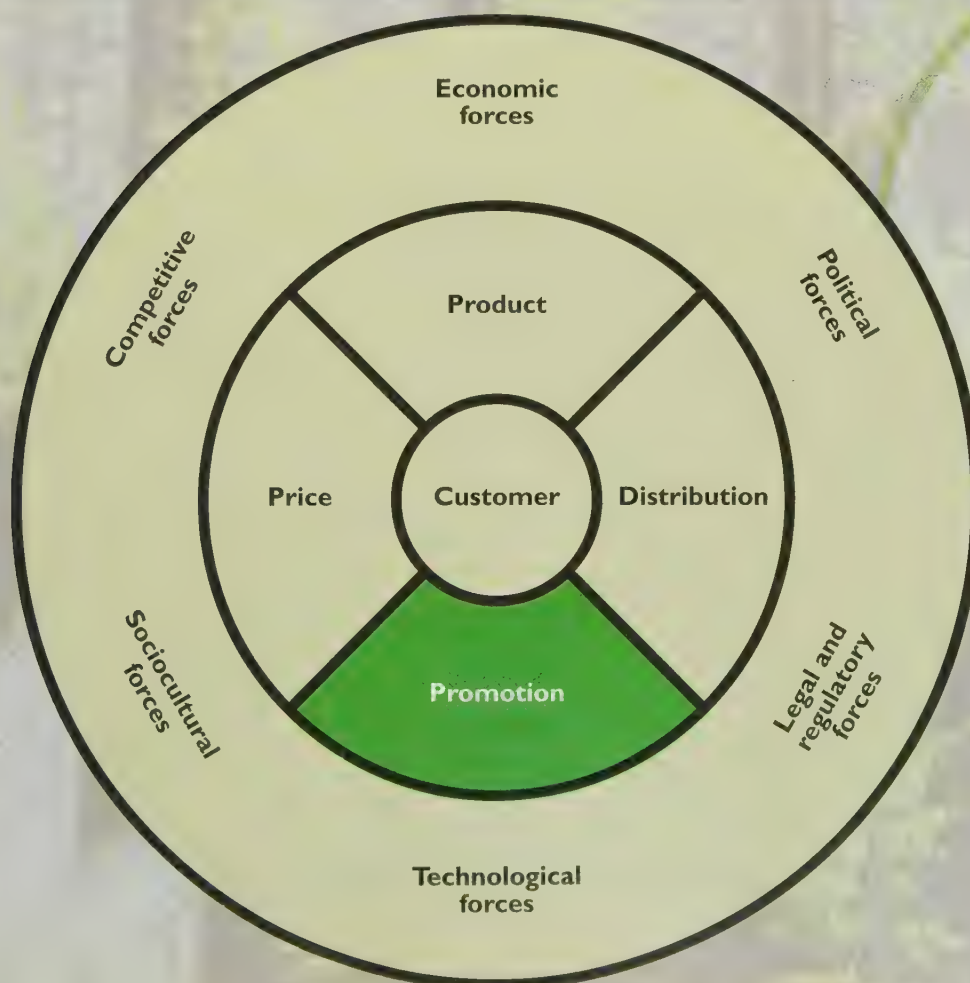
QUESTIONS FOR DISCUSSION

1. What changes occurred at EMS that caused the company to lose its unique retail position?
2. Evaluate the CEO's decision to take the company back to its roots.
3. Why would EMS prefer to open in a lifestyle shopping center rather than a regional shopping center? Do you agree with this retail location decision? Explain your answer.

PART 7

PROMOTION DECISIONS

Part 7 focuses on communication with target market members and, at times, other groups. A specific marketing mix cannot satisfy people in a particular target market unless they are aware of the product and know where to find it. Some promotion decisions relate to a specific marketing mix; others are geared toward promoting the entire organization. Chapter 16 discusses integrated marketing communications. It describes the communication process and the major promotional methods that can be included in promotion mixes. Chapter 17 analyzes the major steps in developing an advertising campaign. It also explains what public relations is and how it can be used. Chapter 18 deals with personal selling and the role it can play in a firm's promotional efforts. This chapter also explores the general characteristics of sales promotion and describes sales promotion techniques.



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CHAPTER 16

Integrated Marketing Communications

OBJECTIVES:

- 1 Describe the nature of integrated marketing communications.
- 2 Examine the process of communication.
- 3 Understand the role and objectives of promotion.
- 4 Explore the elements of the promotion mix.
- 5 Examine the selection of promotion mix elements.
- 6 Understand word-of-mouth communication and how it affects promotion.
- 7 Understand product placement promotions.
- 8 Examine criticisms and defenses of promotion.



AP Photo/Al Behman

MARKETING INSIGHTS

Procter & Gamble Combines Advertising with Social Media

Procter & Gamble (P&G), the producer of products like Tide and Oil of Olay, has sponsored more than 20 soap operas since the 1930s. These radio and television serials helped bring P&G in touch with its key female demographic. However, times have changed in the last several decades, with more women filling the workforce, a more equal division of household labor, and more women leading busy lives. To reconnect its products with these critical consumers, P&G has moved from serials to social media.

P&G spends more on advertising than any other global company. Yet, thanks to social media, the company has reduced expenses. For example, P&G launched the “Smell like a Man, Man” Old Spice campaign starring bare-chested former NFL receiver Isaiah Mustafa. Although the company ran standard commercials, the campaign really took flight when its YouTube videos went viral. Following its YouTube success, P&G encouraged its new fans to pose questions to Mustafa on Twitter. He answered in short videos filled with humor. Old Spice YouTube videos have received more than 140 million views, and Twitter followers have increased almost 3,000 percent—immense exposure for a fraction of the cost. P&G is also using Twitter and Facebook to involve consumers in the decision-making process, such as deciding which advertisements to air during coverage of the Winter Olympic games.

Although it still advertises via commercials, P&G now links them with conversations on Facebook and Twitter. Not only does this method have a far wider reach, but it takes advantage of one of the most effective forms of marketing, word-of-mouth communication.¹

Organizations like Procter & Gamble employ a variety of promotional methods to communicate with their target markets. Providing information to customers and other stakeholders is vital to initiating and developing long-term relationships with them.

This chapter looks at the general dimensions of promotion. First, we discuss the nature of integrated marketing communications. Next, we analyze the meaning and process of communication. We then define and examine the role of promotion and explore some of the reasons promotion is used. Then we consider major promotional methods and the factors that influence marketers' decisions to use particular methods. Next, we explain the positive and negative effects of personal and electronic word-of-mouth communication. Finally, we examine criticisms and defenses of promotion.

The Nature of Integrated Marketing Communications

Integrated marketing communications refer to the coordination of promotion and other marketing efforts to ensure maximum informational and persuasive impact on customers. Coordinating multiple marketing tools to produce this synergistic effect requires a marketer to employ a broad perspective. A major goal of integrated marketing communications is to send a consistent message to customers. For a number of years, Major League Baseball has been struggling with image issues due to steroid scandals and other controversies. To create a more family-friendly image, when the San Diego Padres constructed their new stadium, they partnered with Petco by selling the nationally recognized company naming rights to the stadium. The team has also created a Junior Padres membership program for children. Members get discounts to Padres-related events, the chance to win prizes, and an invitation to the Junior Padres Field Day.²

Because various units both inside and outside most companies have traditionally planned and implemented promotional efforts, customers have not always received consistent messages.

integrated marketing communications

Coordination of promotion and other marketing efforts for maximum informational and persuasive impact



Integrated Marketing Communication

Red Bull uses several marketing communication tools, such as events and sponsorships, in an attempt to maximize its informational and persuasive impact.

Integrated marketing communications allow an organization to coordinate and manage its promotional efforts to transmit consistent messages. Integrated marketing communications also enable synchronization of promotion elements and can improve the efficiency and effectiveness of promotion budgets. Thus, this approach fosters not only long-term customer relationships but also the efficient use of promotional resources.

The concept of integrated marketing communications has been increasingly accepted for several reasons. Mass media advertising, a very popular promotional method in the past, is used less frequently today because of its high cost and lower effectiveness in reaching some target markets. Marketers can now take advantage of more precisely targeted promotional tools, such as cable TV, direct mail, the Internet, special-interest magazines, DVDs, cell phones, and even iPods. Database marketing is also allowing marketers to more precisely target individual customers. Until recently, suppliers of marketing communications were specialists. Advertising agencies provided advertising campaigns, sales promotion companies provided sales promotion activities and materials, and public relations organizations engaged in publicity efforts. Today, a number of promotion-related companies provide one-stop shopping for the client seeking advertising, sales promotion, and public relations, thus reducing coordination problems for the sponsoring company. Because the overall cost of marketing communications has risen significantly, upper management demands systematic evaluations of communication efforts and a reasonable return on investment.

The specific communication vehicles employed and the precision with which they are used are changing as both information technology and customer interests become increasingly dynamic. For example, companies can run short advertisements during broadcasts of TV shows and other videos that users can watch on their cell phones. Some companies are creating their own branded content to exploit the many vehicles through which consumers obtain information. For instance, in its quest to reposition its brand, Radio Shack launched The Shack platform. As part of this creative platform, Radio Shack formed a bicycle racing team called Team RadioShack consisting of professional cyclists from 15 nationalities.³

Today, marketers and customers have almost unlimited access to data about each other. Integrating and customizing marketing communications while protecting customer privacy has become a major challenge. Through digital media, companies can provide product information and services that are coordinated with traditional promotional activities. In fact, gathering information about goods and services is one of the main reasons people use the Internet. This has made the Internet a lucrative channel for advertisers. Marketers spent approximately \$3 billion on social media advertising in 2011.⁴ College students in particular say they are influenced by Internet ads when buying online or just researching product purchases. The sharing of information and use of technology to facilitate communication between buyers and sellers are essential for successful customer relationship management.

Promotion and the Communication Process

Communication is essentially the transmission of information. For communication to take place, both the sender and receiver of information must share some common ground. They must have a common understanding of the symbols, words, and pictures used to transmit information. An individual transmitting the following message may believe he or she is communicating with you:

在工廠吾人製造化粧品,在商店吾人銷售希望。

However, communication has not taken place if you don't understand the language in which the message is written. Thus, we define **communication** as a sharing of meaning. Implicit in this definition is the notion of transmission of information because sharing necessitates transmission.

As Figure 16.1 shows, communication begins with a source. A **source** is a person, group, or organization with a meaning it attempts to share with an audience. A source could be a salesperson wishing to communicate a sales message or an organization wanting to send a message to thousands of customers through an advertisement. Developing a strategy can enhance the effectiveness of the source's communication. For example, a strategy in which a salesperson attempts to influence a customer's decision by eliminating competitive products from consideration has been found to be effective. A **receiver** is the individual, group, or organization that decodes a coded message, and an *audience* is two or more receivers.

To transmit meaning, a source must convert the meaning into a series of signs or symbols representing ideas or concepts. This is called the **coding process**, or *encoding*. When coding meaning into a message, the source must consider certain characteristics of the receiver or audience. To share meaning, the source should use signs or symbols familiar to the receiver or audience. Research has shown that persuasive messages from a source are more effective when the appeal matches an individual's personality.⁵ Marketers that understand this realize the importance of knowing their target market and ensuring that an advertisement or promotion uses language the target market understands and depicts behaviors acceptable within the culture. For instance, Pepsodent toothpaste was sold in Southeast Asia, promoting its teeth whitening capability. The product did not sell well because local natives chew betel nuts to blacken their teeth, which is considered more attractive than light teeth. Another example involves a U.S. telephone company whose ad campaign failed to reach Latinos with a commercial that showed a wife telling her husband to call friends and explain that they would be arriving late for dinner. First, in general, Latina women do not dictate their husband's behavior. Also, it is not customary in Latino cultures to call if you are going to be late for dinner. United Airlines also struggled with a promotion introducing new service to Hong Kong. White carnations were handed to passengers when boarding their flight; the advertisers did not realize that, in Chinese culture, white flowers are related to bad luck or even death. United quickly changed the promotion so that the passengers were given red carnations.⁶

When coding a meaning, a source needs to use signs or symbols that the receiver or audience uses to refer to the concepts the source intends to convey. Instead of technical jargon, explanatory language that helps consumers understand the message is more likely to result

communication

A sharing of meaning through the transmission of information

source

A person, group, or organization with a meaning it tries to share with a receiver or an audience

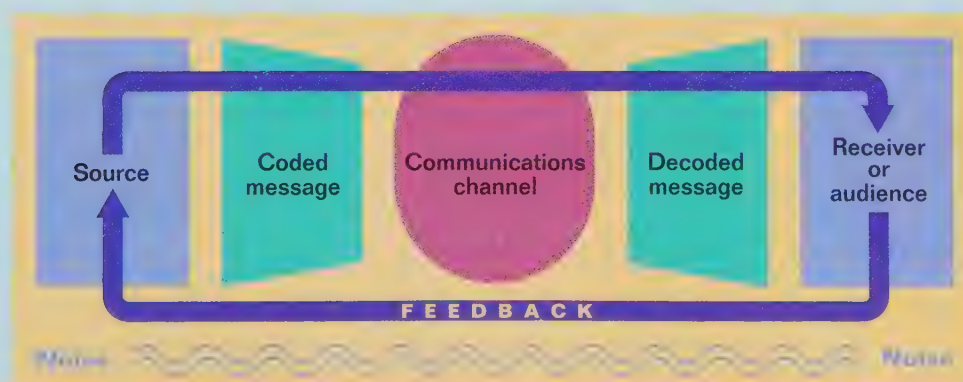
receiver

The individual, group, or organization that decodes a coded message

coding process

Converting meaning into a series of signs or symbols

FIGURE 16.1 The Communication Process





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Coding

The MINI Countryman plays with readers' understanding of the term "biggie" in promoting its larger MINI automobile.

communications channel

The medium of transmission that carries the coded message from the source to the receiver

in positive attitudes and purchase intentions. Marketers try to avoid signs or symbols that may have several meanings for an audience. For example, *soda* as a general term for soft drinks may not work well in national advertisements. Although in some parts of the United States the word means "soft drink," in other regions it may connote bicarbonate of soda, an ice cream drink, or something one mixes with Scotch whiskey.

To share a coded meaning with the receiver or audience, a source selects and uses a **communications channel**, the medium of transmission that carries the coded message from the source to the receiver or audience. Transmission media include ink on paper, air wave vibrations produced by vocal cords, chalk marks on a chalkboard, and digital communication. Table 16.1 summarizes the leading communications channels from which people obtain information and news.

When a source chooses an inappropriate communication channel, several problems may arise. The coded message may reach some receivers, but possibly the wrong receivers. For example, dieters who adopt the Atkins low-carbohydrate diet are more likely to focus on communications that relate to their food concerns, such as "Eat Meat Not Wheat" T-shirts and fast-food chain advertisements that communicate information about the carbohydrate content of menu items. An advertiser that wants to reach this group would need to take this information into account when choosing an appropriate communication channel.

At the same time, however, these advertisements can easily be adopted by the wrong types of receivers—those who want an excuse to eat all the meats and fatty foods they want without guilt, which is not the purpose of the Atkins diet. Thus, finding the right messages that target the right receivers can be a challenging process.

Coded messages may also reach intended receivers in incomplete form because the intensity of the transmission is weak. For instance, radio and broadcast television signals are received effectively only over a limited range, which varies according to climactic conditions.

TABLE 16.1 Where People Get Their News and Information

On a typical day:	
78	percent of Americans from a local TV station
73	percent from a national network, such as CBS, or a cable TV station, such as CNN or FoxNews
61	percent from online
54	percent from a radio news program at home or in the car
50	percent from a local newspaper
17	percent from a national newspaper, such as <i>The New York Times</i> or <i>USA Today</i>

Source: Kristen Purcell, Lee Rainie, Amy Mitchell, Tom Rosenstiel, Kenny Olmstead, "Understanding the Participatory News Consumer," Pew Internet & American Life Project, March 1, 2010, http://pewinternet.org/-/media//Files/Reports/2010/PIP_Understanding_the_Participatory_News_Consumer.pdf (accessed April 18, 2011).

Members of the target audience living on the fringe of the broadcast area may receive a weak signal; others well within the broadcast area may also receive an incomplete message if, for example, they listen to the radio while driving or studying.

In the **decoding process**, signs or symbols are converted into concepts and ideas. Seldom does a receiver decode exactly the same meaning the source coded. When the result of decoding differs from what was coded, noise exists. **Noise** is anything that reduces the clarity and accuracy of the communication; it has many sources and may affect any or all parts of the communication process. Noise sometimes arises within the communications channel itself. Radio static, poor or slow Internet connections, and laryngitis are sources of noise. Noise also occurs when a source uses signs or symbols that are unfamiliar to the receiver or have a meaning different from the one intended. Noise may also originate in the receiver; a receiver may be unaware of a coded message when perceptual processes block it out.

The receiver's response to a decoded message is **feedback** to the source. The source usually expects and normally receives feedback, although perhaps not immediately. During feedback, the receiver or audience is the source of a message directed toward the original source, which then becomes a receiver. Feedback is coded, sent through a communications channel, and decoded by the receiver, the source of the original communication. Thus, communication is a circular process, as indicated in Figure 16.1.

During face-to-face communication, such as personal selling and product sampling, verbal and nonverbal feedback can be immediate. Instant feedback lets communicators adjust messages quickly to improve the effectiveness of their communications. For example, when a salesperson realizes through feedback that a customer does not understand a sales presentation, the salesperson adapts the presentation to make it more meaningful to the customer. This is why face-to-face communication is the most adaptive and flexible, especially compared to digital, web-based, or telephone communications. In interpersonal communication, feedback occurs through talking, touching, smiling, nodding, eye movements, and other body movements and postures.

When mass communication such as advertising is used, feedback is often slow and difficult to recognize. Also, it may be several years before the effects of this promotion will be known. Feedback does exist for mass communication in the form of measures of changes in sales volume or in consumers' attitudes and awareness levels.

Each communication channel has a limit on the volume of information it can handle effectively. This limit, called **channel capacity**, is determined by the least efficient component of the communication process. Consider communications that depend on speech. An individual source can speak only so fast, and there is a limit to how much an individual receiver can take in aurally. Beyond that point, additional messages cannot be decoded; thus, meaning cannot be shared. Although a radio announcer can read several hundred words a minute, a one-minute advertising message should not exceed 150 words, because most announcers cannot articulate words into understandable messages at a rate beyond 150 words per minute.

The Role and Objectives of Promotion

Promotion is communication that builds and maintains favorable relationships by informing and persuading one or more audiences to view an organization positively and to accept its products. Toward this end, many organizations spend considerable resources on promotion to build and enhance relationships with current and potential customers and other stakeholders. For example, the price for a 30-second ad spot during Super Bowl XLV was

decoding process

Converting signs or symbols into concepts and ideas

noise

Anything that reduces a communication's clarity and accuracy

feedback

The receiver's response to a decoded message

channel capacity

The limit on the volume of information a communication channel can handle effectively

promotion

Communication to build and maintain relationships by informing and persuading one or more audiences

FIGURE 16.2 Information Flows Are Important in Integrated Marketing Communications

\$3 million.⁷ Marketers also indirectly facilitate favorable relationships by focusing information about company activities and products on interest groups (such as environmental and consumer groups), current and potential investors, regulatory agencies, and society in general. For instance, some organizations promote responsible use of products criticized by society such as tobacco, alcohol, and violent movies. Companies sometimes promote programs that help selected groups. The Gap has a Give & Get program that donates 5 percent of purchases to nonprofit organizations for up to \$2 million. The program has raised more than \$9 million since its implementation.⁸ Such cause-related marketing links the purchase of products to philanthropic efforts for one or more causes. By contributing to causes that its target markets support, cause-related marketing can help marketers boost sales and generate goodwill.

For maximum benefit from promotional efforts, marketers strive for proper planning, implementation, coordination, and control of communications. Effective management of integrated marketing communications is based on information about and feedback from customers and the marketing environment, often obtained from an organization's marketing information system (see Figure 16.2). How successfully marketers use promotion to maintain positive relationships depends to some extent on the quantity and quality of information the organization receives. Because customers derive information and opinions from many different sources, integrated marketing communications planning also takes into account informal methods of communication such as word of mouth and independent information sources on the Internet. Because promotion is communication that can be managed, we now analyze what communication is and how the communication process works.

Promotional objectives vary considerably from one organization to another and within organizations over time. Large firms with multiple promotional programs operating simultaneously may have quite varied promotional objectives. For the purpose of analysis, we focus on the eight promotional objectives shown in Table 16.2. Although the list is not exhaustive, one or more of these objectives underlie many promotional programs.

TABLE 16.2 Possible Objectives of Promotion

Create awareness	Retain loyal customers
Stimulate demand	Facilitate reseller support
Encourage product trial	Combat competitive promotional efforts
Identify prospects	Reduce sales fluctuations

CREATE AWARENESS

A considerable amount of promotion efforts focus on creating awareness. For an organization that is introducing a new product or a line extension, making customers aware of the product is crucial to initiating the product adoption process. A marketer that has invested heavily in product development strives to create product awareness quickly to generate revenues to offset the high costs of product development and introduction. To make customers aware of its new hybrid laptop IdeaPad U1, Lenovo Group Limited unleashed a prototype at the Consumer Electronics Show in Las Vegas months before the product was released.⁹

Creating awareness is important for existing products, too. Promotional efforts may aim to increase awareness of brands, product features, image-related issues (such as organizational size or socially responsive behavior), or operational characteristics (such as store hours, locations, and credit availability). Some promotional programs are unsuccessful because marketers fail to generate awareness of critical issues among a significant portion of target market members. Other times the campaign itself is at fault. Fox experienced this after broadcasting live Twitter overlays over reruns of *Fringe* and *Glee*. The promotion failed because viewers found the overlays to be intrusive and distracting.¹⁰

STIMULATE DEMAND

When an organization is the first to introduce an innovative product, it tries to stimulate **primary demand**—demand for a product category rather than for a specific brand of product—through **pioneer promotion**. Pioneer promotion informs potential customers about the product: what it is, what it does, how it can be used, and where it can be purchased. Because pioneer promotion is used in the introductory stage of the product life cycle, meaning there are no competing brands, it neither emphasizes brand names nor compares brands. When Apple introduced the iPad, it envisioned a product that would be different from desktop computers and notebooks and that would be used in and around the home for easy access of news, e-mail, entertainment, and a broad diversity of service options. The goal was to promote the iPad as a new product, not as a replacement for a product you might already have.¹¹

To build **selective demand**, demand for a specific brand, a marketer employs promotional efforts that point out the strengths and benefits of a specific brand. Building selective demand also requires singling out attributes important to potential buyers. Selective demand can be stimulated by differentiating the product from competing brands in the minds of potential buyers. Selective demand can also be stimulated by increasing the number of product uses and promoting them through advertising campaigns, as well as through price discounts, free samples, coupons, consumer contests and games, and sweepstakes. For example, Nike creates awareness for its “Reuse a Shoe” recycling program on its website and within its stores. After shoes are returned for recycling, Nike breaks them into three components: (1) rubber soles are turned into running tracks, (2) foam midsoles turn into the springy surface for tennis courts, and (3) fabric uppers become padding for basketball courts. Since 1990, Nike has recycled more than 25 million pairs of shoes. Nike’s commitment to environmental issues can stimulate selective demand for athletic shoes.¹² Promotions for large package sizes or multiple-product packages are directed at increasing consumption, which in turn can stimulate demand. In addition, selective demand can be stimulated by encouraging existing customers to use more of the product.



Creating Awareness

McDonald's promotes the inclusion of fruit in its children's meals.

primary demand

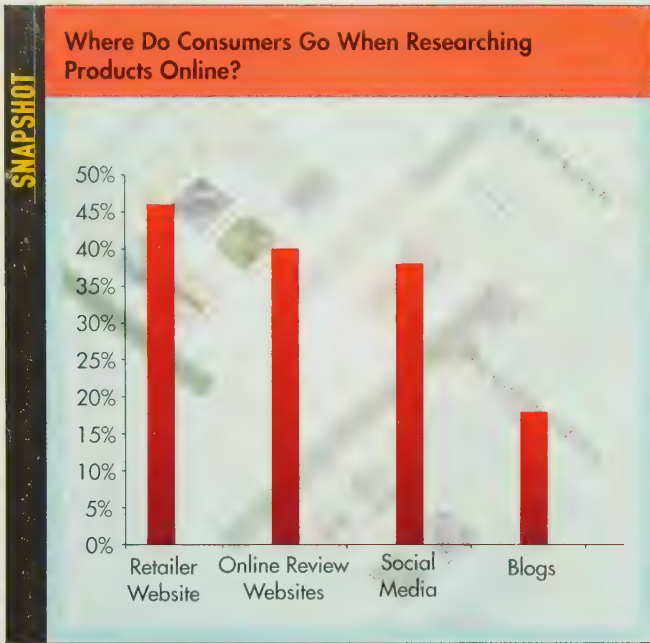
Demand for a product category rather than for a specific brand

pioneer promotion

Promotion that informs consumers about a new product

selective demand

Demand for a specific brand



Source: AMP Agency, "ins de the Buy" Information taken from AMP Agency's Consumer Shopping Survey "Inside the Buy" Reveals Modern Consumers Lack True Brand Loyalty," *MSNBC*, February 7, 2011. www.msnbc.msn.com/id/41456910/ns/business-press_releases/ (accessed July 6, 2011)

ENCOURAGE PRODUCT TRIAL

When attempting to move customers through the product adoption process, a marketer may successfully create awareness and interest, but customers may stall during the evaluation stage. In this case, certain types of promotion—such as free samples; coupons; test drives; or limited free-use offers, contests, and games—are employed to encourage product trial. For instance, many software companies offer free 30-day trials of their software. Whether a marketer's product is the first in a new product category, a new brand in an existing category, or simply an existing brand seeking customers, trial-inducing promotional efforts aim to make product trial convenient and low risk for potential customers.

IDENTIFY PROSPECTS

Certain types of promotional efforts aim to identify customers who are interested in the firm's product and are most likely to buy it. A marketer may use a magazine

advertisement with a direct-response information form, requesting the reader to complete and mail in the form to receive additional information. Some advertisements have toll-free numbers to facilitate direct customer response. Customers who fill out information blanks or call the organization usually have higher interest in the product, which makes them likely sales prospects. The organization can respond with phone calls, follow-up letters, or personal contact by salespeople.

RETAIN LOYAL CUSTOMERS

Clearly, maintaining long-term customer relationships is a major goal of most marketers. Such relationships are quite valuable. Promotional efforts directed at customer retention can help an organization control its costs because the costs of retaining customers are usually considerably lower than those of acquiring new ones. Frequent-user programs, such as those sponsored by airlines, car rental agencies, and hotels, aim to reward loyal customers and encourage them to remain loyal. Regal Entertainment, for example, introduced the Regal Crown Club. Membership entitles consumers to earn points that can be used for free movies, popcorn, or beverages at a Regal Cinema.¹³ Some organizations employ special offers that only their existing customers can use. To retain loyal customers, marketers not only advertise loyalty programs but also use reinforcement advertising, which assures current users they have made the right brand choice and tells them how to get the most satisfaction from the product.

FACILITATE RESELLER SUPPORT

Reseller support is a two-way street: producers generally want to provide support to resellers to maintain sound working relationships, and in turn they expect resellers to support their products. When a manufacturer advertises a product to consumers, resellers should view this promotion as a form of strong manufacturer support. In some instances, a producer agrees to pay a certain proportion of retailers' advertising expenses for promoting its products. When a manufacturer is introducing a new consumer brand in a highly competitive product category, it may be difficult to persuade supermarket managers to carry this brand. However, if the manufacturer

promotes the new brand with free samples and coupon distribution in the retailer's area, a supermarket manager views these actions as strong support and is much more likely to handle the product. To encourage wholesalers and retailers to increase their inventories of its products, a manufacturer may provide them with special offers and buying allowances. In certain industries, a producer's salesperson may provide support to a wholesaler by working with the wholesaler's customers (retailers) in the presentation and promotion of the products. Strong relationships with resellers are important to a firm's ability to maintain a sustainable competitive advantage. The use of various promotional methods can help an organization achieve this goal.

COMBAT COMPETITIVE PROMOTIONAL EFFORTS

At times, a marketer's objective in using promotion is to offset or lessen the effect of a competitor's promotional or marketing programs. This type of promotional activity does not necessarily increase the organization's sales or market share, but it may prevent a sales or market share loss. A combative promotional objective is used most often by firms in extremely competitive consumer markets, such as the fast-food and automobile industries. When airlines introduced fees to customers for checking in their bags, Southwest Airlines began heavy promotion of its "bags fly free" campaign. Southwest does not charge for the first or second bag checked, while competitors charge up to \$120 round trip for checking two bags. JetBlue, which does not charge for the first bag, has since joined Southwest in criticizing rivals' fees with its "You Above All" ads.¹⁴ While Southwest has a competitive pricing advantage, it is not unusual for competitors to respond with a counter-pricing strategy or even match a competitor's pricing.

REDUCE SALES FLUCTUATIONS

Demand for many products varies from one month to another because of such factors as climate, holidays, and seasons. A business, however, cannot operate at peak efficiency when sales fluctuate rapidly. Changes in sales volume translate into changes in production, inventory levels, personnel needs, and financial resources. When promotional techniques reduce fluctuations by generating sales during slow periods, a firm can use its resources more efficiently.

Promotional techniques are often designed to stimulate sales during sales slumps. For example, advertisements promoting price reductions of lawn-care equipment can increase sales during fall and winter months. During peak periods, a marketer may refrain from advertising to prevent stimulating sales to the point at which the firm cannot handle all of the demand. On occasion, a company advertises that customers can be better served by coming in on certain days. A pizza outlet, for example, might distribute coupons that are valid only Monday through Thursday because on Friday through Sunday the restaurant is extremely busy.

To achieve the major objectives of promotion discussed here, companies must develop appropriate promotional programs. In the next section, we consider the basic components of such programs: the promotion mix elements.



Retaining Loyal Customers

Credit card companies often establish reward programs and other benefits in an attempt to retain loyal customers.

The Promotion Mix

Several promotional methods can be used to communicate with individuals, groups, and organizations. When an organization combines specific methods to manage the integrated marketing communications for a particular product, that combination constitutes the promotion mix for that product. The four possible elements of a **promotion mix** are advertising, personal selling, public relations, and sales promotion (see Figure 16.3). For some products, firms use all four elements; for others, they use only two or three. In this section, we provide an overview of each promotion mix element; they are covered in greater detail in the next two chapters.

ADVERTISING

Advertising is a paid nonpersonal communication about an organization and its products transmitted to a target audience through mass media, including television, radio, the Internet, newspapers, magazines, video games, direct mail, outdoor displays, and signs on mass transit vehicles. Advertising is changing as consumers' mass media consumption habits are changing. Companies are striving to maximize their presence and impact through digital media; ads are being designed that cater to smaller, more personalized audiences; and traditional media such as newspapers are in a decline due to a drop in readership. Individuals and organizations use advertising to promote goods, services, ideas, issues, and people. Being highly flexible, advertising can reach an extremely large target audience or focus on a small, precisely defined segment. For instance, Burger King's advertising focuses on a large audience of potential fast-food customers, ranging from children to adults, whereas advertising for Gulfstream jets aims at a much smaller and more specialized target market.

Advertising offers several benefits. It is extremely cost-efficient when it reaches a vast number of people at a low cost per person. For example, the cost of a four-color, full-page advertisement in the national edition of *Time* magazine costs \$301,900. With a circulation of more than 3,300,000, this makes the cost of reaching roughly a thousand subscribers \$91.00.¹⁵ Advertising also lets the source repeat the message several times. Subway credits its promotional and advertising success to a catchy theme and heavy repetition of its "\$5.00 footlong" sub sandwich campaign. Furthermore, advertising a product a certain way can add

promotion mix

A combination of promotional methods used to promote a specific product

FIGURE 16.3 The Four Possible Elements of a Promotion Mix



to the product's value, and the visibility an organization gains from advertising can enhance its image. For instance, research suggests that incorporating touchable elements that generate a positive sensory feedback in mail and print advertising can be a positive persuasive tool.¹⁶ At times, a firm tries to enhance its own or its product's image by including celebrity endorsers in advertisements. For example, Best Buy launched a Super Bowl advertisement featuring Sharon Osbourne, Justin Bieber, and Ozzy Osbourne to promote its 4G service.¹⁷

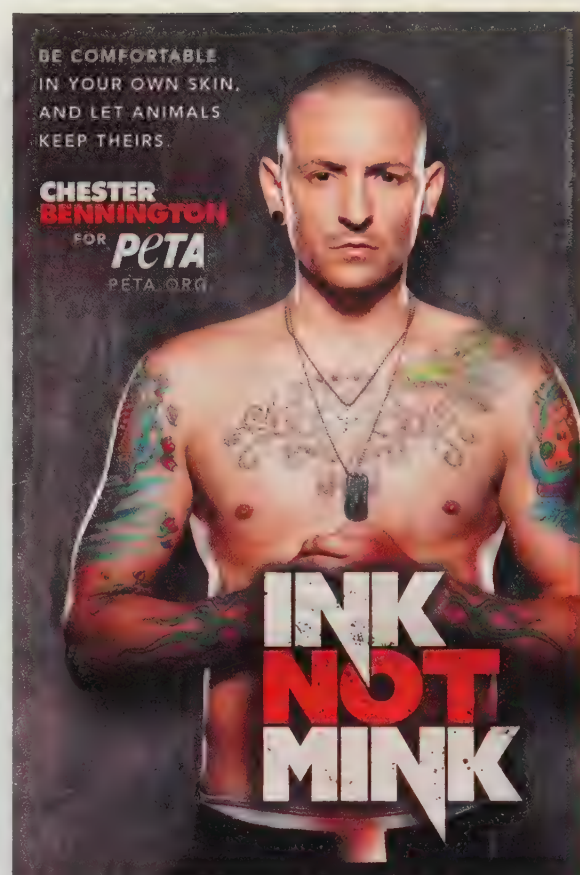
Advertising has disadvantages as well. Even though the cost per person reached may be low, the absolute dollar outlay can be extremely high, especially for commercials during popular television shows. High costs can limit, and sometimes preclude, use of advertising in a promotion mix. Moreover, advertising rarely provides rapid feedback. Measuring its effect on sales is difficult, and it is ordinarily less persuasive than personal selling. In most instances, the time available to communicate a message to customers is limited to seconds, because people look at a print advertisement for only a few seconds, and most broadcast commercials are 30 seconds or less. Of course, the use of infomercials can increase exposure time for viewers.

PERSONAL SELLING

Personal selling is a paid personal communication that seeks to inform customers and persuade them to purchase products in an exchange situation. The phrase *purchase products* is interpreted broadly to encompass acceptance of ideas and issues. Telemarketing relies heavily on personal selling. However, negative consumer attitudes and legislation restricting telemarketing have lessened its effectiveness as a personal selling technique.

Personal selling has both advantages and limitations when compared with advertising. Advertising is general communication aimed at a relatively large target audience, whereas personal selling involves more specific communication directed at one or several individuals. Reaching one person through personal selling costs considerably more than through advertising, but personal selling efforts often have greater impact on customers. Personal selling also provides immediate feedback, allowing marketers to adjust their messages to improve communication. It helps them determine and respond to customers' information needs.

When a salesperson and a customer meet face-to-face, they use several types of interpersonal communication. The predominant communication form is language, both spoken and written. A salesperson and customer frequently use **kinesic communication**, or communication through the movement of head, eyes, arms, hands, legs, or torso. Winking, head nodding, hand gestures, and arm motions are forms of kinesic communication. A good salesperson often can evaluate a prospect's interest in a product or presentation by noting eye contact and head nodding. **Proxemic communication**, a less obvious form of communication used in personal selling situations, occurs when either person varies the physical distance separating them. When a customer backs away from a salesperson, for example, he or she may be displaying a lack of interest in the product or expressing dislike for the salesperson. Touching, or **tactile communication**, is also a form of communication, although less popular in the United States than in many other countries. Handshaking is a common form of tactile communication both in the United States and elsewhere.



Advertising Aimed at Prevention

PETA advertises to encourage consumers to avoid purchasing animal-fur clothing.

kinesic communication

Communicating through the movement of head, eyes, arms, hands, legs, or torso

proxemic communication

Communicating by varying the physical distance in face-to-face interactions

tactile communication

Communicating through touching

Green Marketing



Guerilla Marketing Technique Clashes with City Officials

Guerilla marketers have a new technique to get the attention of consumers: sidewalk ads. Companies are using chalk, paint, and stencils to advertise their logos and messages on city sidewalks. This method has outraged some city officials, who view it as vandalism. Offenders include Microsoft, Zynga, and Levi's. Some cities are imposing fines or arresting individuals engaging in this "sidewalk graffiti." According to city officials, when on public property this graffiti can cost thousands of dollars to clean up. On the other

hand, Dutch marketing firm GreenGraffiti brings a new idea to this advertising method. The company uses stencils and power washers to create graphics on filthy pavement. According to the company, which promotes itself as eco-conscious, it uses less water creating an advertisement than would be used to create a comparable poster. The company approaches cities and offers to pay licensing fees in order to create its designs. GreenGraffiti's many clients have included Starbucks, MTV, and the Amsterdam Police.⁹

PUBLIC RELATIONS

Although many promotional activities focus on a firm's customers, other stakeholders—suppliers, employees, stockholders, the media, educators, potential investors, government officials, and society in general—are important to an organization as well. To communicate with customers and stakeholders, a company employs public relations. Public relations is a broad set of communication efforts used to create and maintain favorable relationships between an organization and its stakeholders. Maintaining a positive relationship with one or more stakeholders can affect a firm's current sales and profits, as well as its long-term survival.

Public relations uses a variety of tools, including annual reports, brochures, event sponsorship, and sponsorship of socially responsible programs aimed at protecting the environment or helping disadvantaged individuals. The goal of public relations is to create and enhance a positive image of the organization. Increasingly, marketers are going directly to consumers with their public relations efforts to bypass the traditional media intermediary (newspapers, magazines, and television). Companies like Best Buy have been creating content on YouTube with the goal of bringing viewers into the "geek world" as well as providing tutorial videos on electronics-related issues.¹⁸

Other tools arise from the use of publicity, which is a component of public relations. Publicity is nonpersonal communication in news-story form about an organization or its products, or both, transmitted through a mass medium at no charge. A few examples of publicity-based public relations tools are news releases, press conferences, and feature articles. To generate publicity, companies sometimes give away products to celebrities in the hope that the celebrities will be seen and photographed with the product, and those photos will stimulate awareness and product trial among their fans. Gift bags for celebrities attending a recent Academy Awards included \$91,000 worth of trinkets, including a \$45,000 safari trip, a \$14,500 stay at the Monte Carlo Beach Hotel, as well as other products and services from marketers who hope these celebrities will use their properties, products, or services. There is one problem, though: with the change in tax laws, if you use these gifts, you have to pay taxes on them. Therefore, many celebrities donated their "swag bags" to charity, which did not result in the celebrity end use and affiliation that marketers would ultimately like.¹⁹ Ordinarily, public relations efforts are planned and implemented to be consistent with and support other elements of the promotion mix. Public relations efforts may be the responsibility of an individual or of a department within the organization, or the organization may hire an independent public relations agency.

Unpleasant situations and negative events, such as product tampering or an environmental disaster, may generate unfavorable public relations for an organization. For instance, Johnson & Johnson had 50 product recalls in 15 months, resulting in a feature cover story in *Bloomberg Businessweek*. After 13 million packages of Rolaid soft chews were recalled when customers found wood and metal particles in them, another 43 million bottles of Tylenol, Benadryl, Sinutab, and Rolaids were withdrawn in early 2011.²⁰ To minimize the damaging effects of unfavorable coverage, effective marketers have policies and procedures in place to help manage any public relations problems.

Public relations should not be viewed as a set of tools to be used only during crises. To get the most from public relations, an organization should have someone responsible for public relations either internally or externally and should have an ongoing public relations program.

SALES PROMOTION

Sales promotion is an activity or material that acts as a direct inducement, offering added value or incentive for the product to resellers, salespeople, or consumers. Examples include free samples, games, rebates, sweepstakes, contests, premiums, and coupons. British department store Debenhams, for example, chose to celebrate its decision to begin shipping internationally to the United States, Australia, Sweden, and other countries by creating a contest called “British Invasion.” Contestants could submit their own designer look inspired by Debenhams’ designers. The prize for first place was a choice of one of Debenhams’ handbags and the opportunity to have the winning design posted to Debenhams’ blog and Facebook page.²¹ Sales promotion should not be confused with *promotion*; sales promotion is just one part of the comprehensive area of promotion. Marketers spend more on sales promotion than on advertising, and sales promotion appears to be a faster-growing area than advertising. Coupons are especially important; Table 16.3 shows the product categories with the greatest distribution of coupons.

Generally, when companies employ advertising or personal selling, they depend on these activities continuously or cyclically. However, a marketer’s use of sales promotion tends to be irregular. Many products are seasonal. A company such as Toro may offer more sales promotions in August than in the peak selling season of April or May, when more people buy tractors, lawn mowers, and other gardening equipment. Marketers frequently rely on sales promotion to improve the effectiveness of other promotion mix elements, especially advertising and personal selling. Nearly two-thirds of consumers make lists before going shopping, and 51 percent

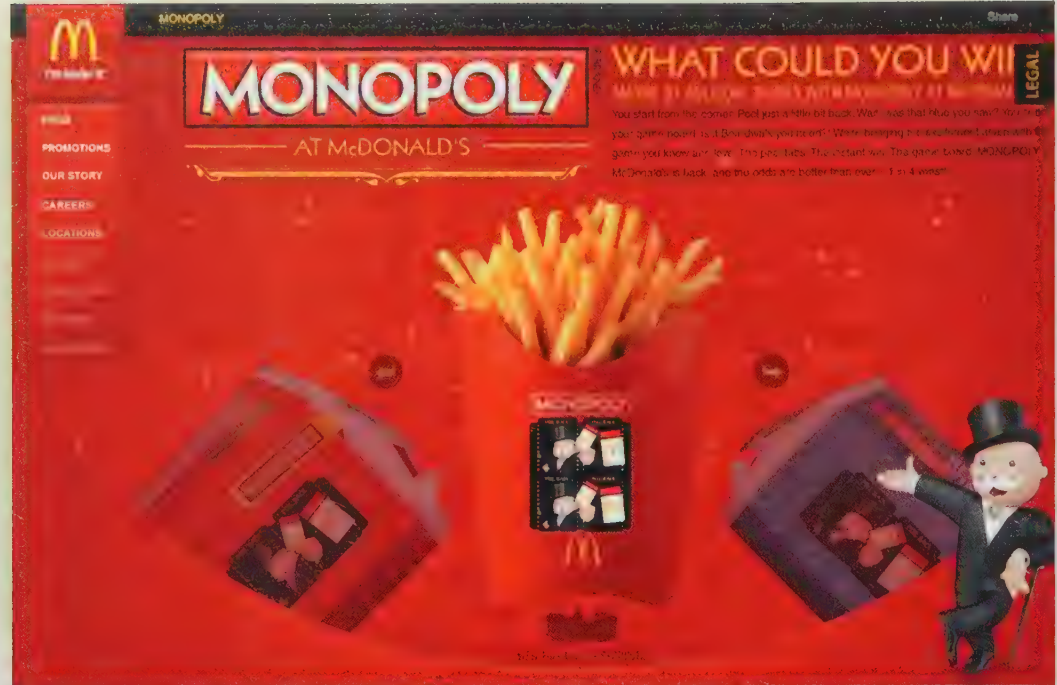
TABLE 16.3 Product Categories with the Greatest Distribution of Coupons

Rank	Product Category	Number of Coupons Issued (in Millions)
1	Combination/personal	13.3
2	Pet food and treats	13.2
3	Household cleaning products	11.5
4	Snacks	11.0
5	Rug/room deodorizer	8.8
6	Vitamins	8.7
7	Cough/cold/sinus/allergy	8.1
8	Hair care	7.5
9	Shaving cream/razor	6.2
10	Antiperspirant/deodorant	6.2

Source: “FSI Coupon Activity Increased 8.0 Percent to More Than 272 Billion Coupons Dropped During 2009,” *Marx Promo Intelligence*, January 6, 2010, www.tnsmi-marx.com/news/01062010.htm (accessed April 18, 2011).

Sales Promotion

McDonald's uses consumer games to generate repeat business.



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indicate that coupons have a significant effect on their purchasing behavior.²² Mobile devices are a personal technology, so they pose an unusual opportunity to reach consumers wherever they go. By 2013, mobile Internet usage will surpass desktop usage. Mobile apps can be used as tools to engage the consumer through sales promotion items such as coupons.²³

An effective promotion mix requires the right combination of components. To see how such a mix is created, we now examine the factors and conditions affecting the selection of promotional methods that an organization uses for a particular product.

Selecting Promotion Mix Elements

Marketers vary the composition of promotion mixes for many reasons. Although a promotion mix can include all four elements, frequently a marketer selects fewer than four. Many firms that market multiple product lines use several promotion mixes simultaneously.

PROMOTIONAL RESOURCES, OBJECTIVES, AND POLICIES

The size of an organization's promotional budget affects the number and relative intensity of promotional methods included in a promotion mix. If a company's promotional budget is extremely limited, the firm is likely to rely on personal selling because it is easier to measure a salesperson's contribution to sales than to measure the sales effectiveness of advertising. Businesses must have sizable promotional budgets to use regional or national advertising. Companies such as Procter & Gamble, Unilever, General Motors, and Coca-Cola are among the leaders in worldwide media spending. Organizations with extensive promotional resources generally include more elements in their promotion mixes, but having more promotional dollars to spend does not necessarily mean using more promotional methods. Researchers have found that resources spent on promotion activities have a positive influence on shareholder value.

An organization's promotional objectives and policies also influence the types of promotion selected. If a company's objective is to create mass awareness of a new convenience good, such as a breakfast cereal, its promotion mix probably leans heavily toward advertising, sales promotion, and possibly public relations. If a company hopes to educate consumers about the features of a durable good, such as a home appliance, its promotion mix may combine a moderate amount of advertising, possibly some sales promotion designed to attract customers to retail stores, and a great deal of personal selling because this method is an efficient way to inform customers about such products. If a firm's objective is to produce immediate sales of nondurable services, the promotion mix will probably stress advertising and sales promotion. For example, dry cleaners and carpet-cleaning firms are more likely to use advertising with a coupon or discount rather than personal selling.

CHARACTERISTICS OF THE TARGET MARKET

Size, geographic distribution, and demographic characteristics of an organization's target market help dictate the methods to include in a product's promotion mix. To some degree, market size determines composition of the mix. If the size is limited, the promotion mix will probably emphasize personal selling, which can be very effective for reaching small numbers of people. Organizations selling to industrial markets and firms marketing products through only a few wholesalers frequently make personal selling the major component of their promotion mixes. When a product's market consists of millions of customers, organizations rely on advertising and sales promotion because these methods reach masses of people at a low cost per person.

Geographic distribution of a firm's customers also affects the choice of promotional methods. Personal selling is more feasible if a company's customers are concentrated in a small area than if they are dispersed across a vast region. When the company's customers are numerous and dispersed, advertising may be more practical.

Distribution of a target market's demographic characteristics, such as age, income, or education, may affect the types of promotional techniques a marketer selects, as well as the messages and images employed. According to the U.S. Census Bureau, so-called traditional families—those composed of married couples with children—account for fewer than one-quarter of all U.S. households.²⁴ To reach the more than three-quarters of households

Emerging Trends in Marketing



Customizing Advertising to Reach the Growing Hispanic Market

With Hispanic spending power estimated at \$1.2 trillion, marketers are starting to take notice.

Twenty-three metro areas already have more Hispanic than non-Hispanic white consumers. However, tapping into this growing demographic will require marketers to adapt their strategies. Many Hispanics are immigrants who are either bilingual or speak no English. To effectively reach this market, advertisers must respect both language and cultural differences. Companies are building Hispanic advertising agencies or teams to help marketers better understand the

market. The communications group Havas Worldwide hired Hispanic managers to build a new Hispanic agency to serve clients, while communications agency DraftFCB created a team of 55 multicultural specialists to focus on the company's multicultural business. While Procter & Gamble has been recognized as having the best Spanish-level advertising, it is estimated that about 50 percent of advertisers ignore the Hispanic market. Those that recognize this opportunity and act accordingly could gain a competitive advantage over these slow movers.^b

consisting of single parents, unmarried couples, singles, and “empty nesters” (whose children have left home), more companies are modifying the images used in their promotions.

CHARACTERISTICS OF THE PRODUCT

Generally, promotion mixes for business products concentrate on personal selling, whereas advertising plays a major role in promoting consumer goods. This generalization should be treated cautiously, however. Marketers of business products use some advertising to promote products. Advertisements for computers, road-building equipment, and aircrafts are fairly common, and some sales promotion is also used occasionally to promote business products. Personal selling is used extensively for consumer durables, such as home appliances, automobiles, and houses, whereas consumer convenience items are promoted mainly through advertising and sales promotion. Public relations appears in promotion mixes for both business and consumer products.

Marketers of highly seasonal products often emphasize advertising—and sometimes sales promotion as well—because off-season sales generally will not support an extensive year-round sales force. Although most toy producers have sales forces to sell to resellers, many of these companies depend chiefly on advertising to promote their products.

A product's price also influences the composition of the promotion mix. High-priced products call for personal selling because consumers associate greater risk with the purchase of such products and usually want information from a salesperson. For low-priced convenience items, marketers use advertising rather than personal selling. Research suggests that consumers visiting a store specifically to purchase a product on sale are more likely to have read flyers and to have purchased other sale-priced products than consumers visiting the same store for other reasons.²⁵

Another consideration in creating an effective promotion mix is the stage of the product life cycle. During the introduction stage, much advertising may be necessary for both business and consumer products to make potential users aware of them. Sharp introduced Quattron technology through a significant advertising campaign for its AQUOS LCD televisions, which educated consumers on the benefits of adding yellow to the color filter in addition to the RGB filters of red, green, and blue. The benefits to consumers included exceptionally high-quality pictures and reduced energy consumption.²⁶ For many products, personal selling and sales promotion are also helpful in this stage. In the growth and maturity stages, consumer services require heavy emphasis on advertising, whereas business products often call for a concentration of personal selling and some sales promotion. In the decline stage, marketers usually decrease all promotional activities, especially advertising.

Intensity of market coverage is still another factor affecting the composition of the promotion mix. When products are marketed through intensive distribution, firms depend strongly on advertising and sales promotion. Many convenience products like lotions, cereals, and coffee are promoted through samples, coupons, and money refunds. When marketers choose selective distribution, promotion mixes vary considerably. Items handled through exclusive distribution—such as expensive watches, furs, and high-quality furniture—typically require a significant amount of personal selling.

A product's use also affects the combination of promotional methods. Manufacturers of highly personal products, such as laxatives, nonprescription contraceptives, and feminine hygiene products, depend on advertising because many customers do not want to talk with salespeople about these products.



Product Characteristics

Convenience products, such as 5 Gum, are promoted mainly through advertising and sales promotion efforts.

COSTS AND AVAILABILITY OF PROMOTIONAL METHODS

Costs of promotional methods are major factors to analyze when developing a promotion mix. National advertising and sales promotion require large expenditures. However, if these efforts succeed in reaching extremely large audiences, the cost per individual reached may be quite small, possibly a few pennies. Some forms of advertising are relatively inexpensive. Many small, local businesses advertise products through local newspapers, magazines, radio and television stations, outdoor displays, search engine result ads, and signs on mass transit vehicles.

Another consideration that marketers explore when formulating a promotion mix is availability of promotional techniques. Despite the tremendous number of media vehicles in the United States, a firm may find that no available advertising medium effectively reaches a certain target market. The problem of media availability becomes more pronounced when marketers advertise in foreign countries. Some media, such as television, simply may not be available, or advertising on television may be illegal. For example, the advertising of cigarettes on television is banned in many countries. In addition, regulations or standards for media content may be restrictive in varying global outlets. For instance, European fashion magazines are increasingly either mandating that “real women” be used in ads (not unrealistically proportioned models) and/or that when an ad has been altered to change a person’s physical appearance, this change must be noted on the ad.²⁷ In some countries, advertisers are forbidden to make brand comparisons on television. Other promotional methods also have limitations. For instance, a firm may wish to increase its sales force but is unable to find qualified personnel.

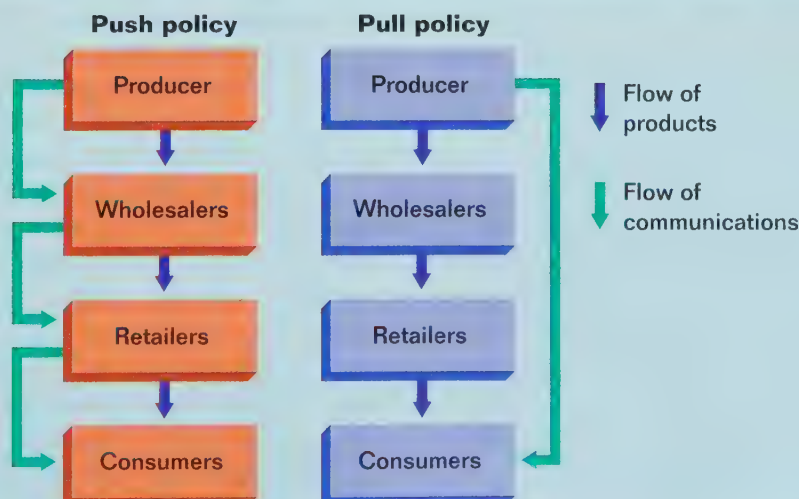
PUSH AND PULL CHANNEL POLICIES

Another element that marketers consider when planning a promotion mix is whether to use a push policy or a pull policy. With a **push policy**, the producer promotes the product only to the next institution down the marketing channel. In a marketing channel with wholesalers and retailers, the producer promotes to the wholesaler because, in this case, the wholesaler is the channel member just below the producer (see Figure 16.4). Each channel member in turn promotes to the next channel member. A push policy normally stresses personal selling. Sometimes sales promotion and advertising are used in conjunction with personal selling to push the products down through the channel.

push policy

Promoting a product only to the next institution down the marketing channel

FIGURE 16.4 Comparison of Push and Pull Promotional Strategies



As Figure 16.4 shows, a firm that uses a **pull policy** promotes directly to consumers to develop strong consumer demand for its products. It does so primarily through advertising and sales promotion. Because consumers are persuaded to seek the products in retail stores, retailers in turn go to wholesalers or the producers to buy the products. This policy is intended to pull the goods down through the channel by creating demand at the consumer level. Consumers are told that if the stores don't have it, ask them to get it.

Push and pull policies are not mutually exclusive. At times, an organization uses both simultaneously.

The Growing Importance of Word-of-Mouth Communications

When making decisions about the composition of promotion mixes, marketers should recognize that commercial messages, whether from advertising, personal selling, sales promotion, or public relations, are limited in the extent to which they can inform and persuade customers and move them closer to making purchases. Depending on the type of customers and the products involved, buyers to some extent rely on word-of-mouth communication from personal sources such as family members and friends. **Word-of-mouth communication** is personal, informal exchanges of communication that customers share with one another about products, brands, and companies. Most customers are likely to be influenced by friends and family members when they make purchases. Word-of-mouth communication is very important when people are selecting restaurants and entertainment along with automotive, medical, legal, banking, and personal services such as hair care. Research has identified a link between word-of-mouth communication and new-customer acquisition when there is customer involvement and satisfaction.²⁸ Effective marketers who understand the importance of word-of-mouth communication attempt to identify opinion leaders and encourage them to try their products in the hope that they will spread favorable publicity about them. Apple, for example, has long relied on its nearly cult consumer following to spread by word of mouth their satisfaction with Apple products such as PowerBooks, iPods, iPhones, and iPads.

In addition, customers are increasingly going online for information and opinions about goods and services as well as about the companies. Electronic word of mouth is communicating about products through websites, blogs, e-mail, social networks, or online forums. Users can go to a number of consumer-oriented websites, such as epinions.com and consumerreview.com. At these sites, they can learn about other consumers' feelings toward and experiences with specific products; some sites even encourage consumers to rate products they have tried. Users can also search within product categories and compare consumers' viewpoints on various brands and models. Not surprisingly, research has identified credibility as the most important attribute of a ratings website and found reducing risk and saving search effort to be the primary motives for using such sites.²⁹ Buyers can peruse Internet-based newsgroups, forums, and blogs to find word-of-mouth information. A consumer looking for a new cell phone service, for example, might inquire in forums about other participants' experiences and level of satisfaction to gain more information before making a purchase decision. A Nielsen Global Online Consumer Survey found that 90 percent of consumers trust recommendations they get from their friends, while 70 percent trust consumer comments posted online.³⁰

Electronic word of mouth is particularly important to consumers staying abreast of trends. Hundreds of blogs (such as TechCrunch, Perez Hilton, and Tree Hugger) play an essential role in propagating electronic word-of-mouth communications about everything from gossip to politics to consumer goods. They provide consumers with information on trends, reviews of products, and other information on what is new, exciting, and fashionable for consumers. These sites have become so influential in introducing consumers to new products and shaping their views about

pull policy

Promoting a product directly to consumers to develop strong consumer demand that pulls products through the marketing channel

word-of-mouth communication

Personal informal exchanges of communication that customers share with one another about products, brands, and companies



Word-of-Mouth

Clever ads like this VW ad go viral and are sought out and shared by viewers.

them that marketers are increasingly monitoring them to identify new trends; some firms have even attempted to influence users' votes on their favorite items. Marketers increasingly must court bloggers, who wield growing influence over consumer perception of companies, products, and services.

Buzz marketing is an attempt to incite publicity and public excitement surrounding a product through a creative event. For example, Threadless—a private T-shirt company—uses buzz marketing to spread awareness of its brand throughout the artist and online communities. Threadless invites artists to submit their T-shirt design ideas for the chance to win \$2,000 and a \$200 gift certificate. The designs are posted online, where members of the Threadless online community can vote for their favorites. The winning designs are printed and sold through the Threadless site.³¹

Buzz marketing works best as a part of an integrated marketing communication program that also uses advertising, personal selling, sales promotion, and publicity. However, marketers should also take care that buzz marketing campaigns do not violate any laws or have the potential to be misconstrued and cause undue alarm. Columbia Pictures, for example, created a false website entitled Institute for Human Continuity to help advertise its end-of-the-world movie *2012*. The site alluded to 25 years worth of threats toward humans and scared a number of people, who then contacted NASA to see what could be done. NASA had to launch its own site to counteract the false site's information.³²

Viral marketing is a strategy to get consumers to share a marketer's message, often through e-mail or online video, in a way that spreads dramatically and quickly. PepsiCo, which had declined to air advertisements during the 2010 or 2011 Super Bowl games, achieved success in viral marketing with its “Pepsi—Oh Africa” online video during the World Cup. It was the first to achieve online viral status during the World Cup. With more than 20 million views, Pepsi's campaign ranked number eight in *Advertising Age's* Top 10 “Biggest Viral Ads of the Year.”³³ [It is important to realize, however, that it is the public that determines whether something is interesting enough to “go viral.”]

Word of mouth, no matter how it is transmitted, is not effective in all product categories. It seems to be most effective for new-to-market and more expensive products. Despite the obvious benefits of positive word of mouth, marketers must also recognize the potential dangers of negative word of mouth. This is particularly important in dealing with online platforms that can reach more people and encourage consumers to “gang up” on a company or product. For example, the second largest national music downloading site, eMusic, has long been known and loved for its commitment to independent music, artists, and labels. When the company decided to welcome mainstream Sony BMG's catalog into the mix, loyal users were irate and freely

buzz marketing

An attempt to incite publicity and public excitement surrounding a product through a creative event

viral marketing

A strategy to get consumers to share a marketer's message, often through e-mail or on-line videos, in a way that spreads dramatically and quickly

Entrepreneurship in Marketing



The Kluger Agency Specializes in Product Placement

One of Adam Kluger's first encounters with product placement was Abercrombie & Fitch in the 1999 song *Summer Girls*. Years later, this recollection would inspire him to create The Kluger Agency, a public relations agency that successfully partners brands with music artists. Kluger's first big break was signing on to place a Vixen's Vision product into the music video of a new artist, Lady Gaga. Since then, TKA has partnered with record labels to represent brands like the soft drink Drank (in Flo Rida's *Sugar* video) and the online dating website Zoosk (in J.Randall's *Can't Sleep* and *Oo La La*). The increasing popularity of product placement into music videos or lyrics comes at an opportune time for the music industry: product placement generates much-needed revenue at a time when file-sharing and iTunes are cutting into industry profits. With an estimated \$5 million in revenues, Kluger has successfully integrated his love for music and business into a profitable enterprise.^c

shared their feelings on eMusic's message boards. When the company also discretely announced price hikes, users became more furious. Many users left or threatened to leave for another site. Although CEO Danny Stein knew the company would face backlash, he did not expect the level of anger felt by many users. The company hasn't yet recovered from the results of its choices, but it has learned a great deal from the experience in terms of the need for transparency and open communication with your customers.³⁴

Product Placement

A growing technique for reaching consumers is the selective placement of products within the context of television programs viewed by the target market. **Product placement** is a form of advertising that strategically locates products or product promotions within entertainment media to reach the product's target markets. It is estimated that Audi, Oracle, Dr Pepper, and Dick's Sporting Goods spent more than \$3 million to have their products placed in the movie *Iron Man 2*.³⁵ Such product placement has become more important due to the increasing fragmentation of television viewers who have ever-expanding viewing options and technology that can screen advertisements (e.g., digital video recorders such as TiVo). Researchers have found that 60 to 80 percent of digital video recorder users skip over the commercials when they replay programming.³⁶

In-program product placements have been successful in reaching consumers as they are being entertained. The show *Mad Men* has made product placement into an art form. Although the show's advertising agency and pitches are fictional, real brands such as Heineken have been featured. Unilever revealed that it was paying to sponsor six placements in 13 ad spots.³⁷ Reality programming in particular has been a natural fit for product placements because of the close interchange between the participants and the product (e.g., Sears and *Extreme Makeover Home Edition*; Levi's, Burger King, Marquis Jet, and Dove and *The Apprentice*; Coca-Cola and *American Idol*). For instance, at the top of its 2010 season, *Biggest Loser* managed to feature Subway, 24 Hour Fitness, Extra gum, and Ziploc.³⁸

Product placement is not limited to U.S. television shows. The European Parliament greenlighted limited use of product placement, albeit only during certain types of programs and only if consumers were informed at the beginning of the segment that companies had paid to have their products displayed. In general, the notion of product placement has not been favorably viewed in Europe and has been particularly controversial in the United Kingdom. However, new legislation has now legalized product placement in U.K. television programs.³⁹

Criticisms and Defenses of Promotion

Even though promotional activities can help customers make informed purchasing decisions, social scientists, consumer groups, government agencies, and members of society in general have long criticized promotion. There are two main reasons for such criticism: promotion

product placement

The strategic location of products or product promotions within entertainment media content to reach the product's target market

does have flaws, and it is a highly visible business activity that pervades our daily lives. Although complaints about too much promotional activity are almost universal, a number of more specific criticisms have been lodged. In this section, we discuss some of the criticisms and defenses of promotion.

IS PROMOTION DECEPTIVE?

One common criticism of promotion is that it is deceptive and unethical. During the 19th and early 20th centuries, much promotion was blatantly deceptive. Although no longer widespread, some deceptive promotion still occurs. The identity theft company LifeLock settled with the FTC for \$12 million after being sued for making deceptive claims. Although the company claimed that it could provide complete protection for all types of identity theft, the FTC alleged that LifeLock did not protect against certain types of identity theft such as medical identity theft.⁴⁰ Many industries suffer from claims of deception from time to time. One industry that is seemingly constantly bombarded with truthfulness claims is the diet products and exercise equipment industry. Some promotions are unintentionally deceiving; for instance, when advertising to children, it is easy to mislead them because they are more naïve than adults and less able to separate fantasy from reality. A promotion may also mislead some receivers because words can have diverse meanings for different people. However, not all promotion should be condemned because a small portion is flawed. Laws, government regulation, and industry self-regulation have helped decrease deceptive promotion.



Merrick Morton/© Columbia Pictures/Courtesy Everett Collection

Product Placement

Gap represents a product placement in the popular movie *The Social Network*.

DOES PROMOTION INCREASE PRICES?

Promotion is also criticized for raising prices, but in fact it often tends to lower them. The ultimate purpose of promotion is to stimulate demand. If it does, the business should be able to produce and market products in larger quantities and thus reduce per-unit production and marketing costs, which can result in lower prices. For example, as demand for flat-screen TVs and MP3 players has increased, their prices have dropped. When promotion fails to stimulate demand, the price of the promoted product increases because promotion costs must be added to other costs. Promotion also helps keep prices lower by facilitating price competition. When firms advertise prices, their prices tend to remain lower than when they are not promoting prices. Gasoline pricing illustrates how promotion fosters price competition. Service stations with the highest prices seldom have highly visible price signs.

DOES PROMOTION CREATE NEEDS?

Some critics of promotion claim that it manipulates consumers by persuading them to buy products they do not need, hence creating “artificial” needs. In his theory of motivation, Abraham Maslow (discussed in Chapter 6) indicates that an individual tries to satisfy five levels of needs: physiological needs, such as hunger, thirst, and sex; safety needs; needs for love and affection; needs for self-esteem and respect from others; and self-actualization needs, or the need to realize one’s potential. When needs are viewed in this context, it is difficult to demonstrate that promotion creates them. If there were no promotional activities, people

Marketing Debate



Taco Bell Responds to Accusations about Its Meat Filling

ISSUE: *Did the media treat Taco Bell fairly in its coverage of the meat filling lawsuit?*

While ground beef must be at least 7 percent beef and no more than 30 percent fat, taco filling must contain 40 percent meat with the label showing the true product name, such as “taco meat filling.” Taco Bell received several lawsuits alleging that its beef taco filling did not meet USDA standards. The lawsuits prompted major news stories from outlets like *USA Today* and *MSNBC* that questioned the company’s product quality. Taco Bell responded with \$3 to \$4 million in advertising to counter the accusations. The company also ran ads in national newspapers saying “Thank you for suing us—here’s the truth about our seasoned beef.” Finally, the lawsuit was dropped because the law firm claimed Taco Bell made changes in its marketing and product disclosure. Taco Bell did not disclose how much the accusations affected sales.^d

would still have needs for food, water, sex, safety, love, affection, self-esteem, respect from others, and self-actualization.

Although promotion may not create needs, it does capitalize on them (which may be why some critics believe promotion creates needs). Many marketers base their appeals on these needs. For instance, several mouthwash, toothpaste, and perfume advertisements associate these products with needs for love, affection, and respect. These advertisers rely on human needs in their messages, but they do not create the needs.

DOES PROMOTION ENCOURAGE MATERIALISM?

Another frequent criticism of promotion is that it leads to materialism. The purpose of promoting goods is to persuade people to buy them; thus, if promotion works, consumers will want to buy more and more things. Marketers assert that values are instilled in the home and that promotion does not change people into materialistic consumers. However, the behavior of today’s children and teenagers contradicts this view; many insist on high-priced, brand name apparel such as Gucci, Coach, Abercrombie & Fitch, and Ralph Lauren.

DOES PROMOTION HELP CUSTOMERS WITHOUT COSTING TOO MUCH?

Every year, firms spend billions of dollars for promotion. The question is whether promotion helps customers enough to be

worth the cost. Consumers do benefit because promotion informs them about product uses, features, advantages, prices, and locations where they can buy the products. Consumers thus gain more knowledge about available products and can make more intelligent buying decisions. Promotion also informs consumers about services—for instance, health care, educational programs, and day care—as well as about important social, political, and health-related issues. For example, several organizations, such as the California Department of Health Services, inform people about the health hazards associated with tobacco use.

SHOULD POTENTIALLY HARMFUL PRODUCTS BE PROMOTED?

Finally, some critics of promotion, including consumer groups and government officials, suggest that certain products should not be promoted at all. Primary targets are products associated with violence and other possibly unhealthy activities, such as handguns, alcohol, and tobacco. Cigarette advertisements, for example, promote smoking, a behavior proven to be harmful and even deadly. Tobacco companies, which spend billions on promotion, have countered criticism of their advertising by pointing out that advertisements for red meat and coffee are not censured even though these products may also cause health problems. Those who defend such promotion assert that as long as it is legal to sell a product, promoting that product should be allowed.

CHAPTER REVIEW

1 Describe the nature of integrated marketing communications.

Integrated marketing communications is the coordination of promotion and other marketing efforts to ensure maximum informational and persuasive impact on customers.

2 Examine the process of communication.

Communication is a sharing of meaning. The communication process involves several steps. First, the source translates meaning into code, a process known as coding or encoding. The source should employ signs or symbols familiar to the receiver or audience. The coded message is sent through a communications channel to the receiver or audience. The receiver or audience then decodes the message and usually supplies feedback to the source. When the decoded message differs from the encoded one, a condition called noise exists.

3 Understand the role and objectives of promotion.

Promotion is communication to build and maintain relationships by informing and persuading one or more audiences. Although promotional objectives vary from one organization to another and within organizations over time, eight primary objectives underlie many promotional programs. Promotion aims to create awareness of a new product, a new brand, or an existing product; to stimulate primary and selective demand; to encourage product trial through the use of free samples, coupons, limited free-use offers, contests, and games; to identify prospects; to retain loyal customers; to facilitate reseller support; to combat competitive promotional efforts; and to reduce sales fluctuations.

4 Explore the elements of the promotion mix.

The promotion mix for a product may include four major promotional methods: advertising, personal selling, public relations, and sales promotion. Advertising is paid nonpersonal communication about an organization and its products transmitted to a target audience through a mass medium. Personal selling is paid personal communication that attempts to inform customers and persuade them to purchase products in an exchange situation. Public relations is a broad set of communica-

tion efforts used to create and maintain favorable relationships between an organization and its stakeholders. Sales promotion is an activity or material that acts as a direct inducement (offering added value or incentive for the product) to resellers, salespeople, or consumers.

5 Examine the selection of promotion mix elements.

The promotional methods used in a product's promotion mix are determined by the organization's promotional resources, objectives, and policies; characteristics of the target market; characteristics of the product; and cost and availability of promotional methods. Marketers also consider whether to use a push policy or a pull policy. With a push policy, the producer promotes the product only to the next institution down the marketing channel. Normally, a push policy stresses personal selling. Firms that use a pull policy promote directly to consumers, with the intention of developing strong consumer demand for the products. Once consumers are persuaded to seek the products in retail stores, retailers go to wholesalers or the producer to buy the products.

6 Understand word-of-mouth communication and how it affects promotion.

Most customers are likely to be influenced by friends and family members when making purchases. Word-of-mouth communication is personal, informal exchanges of communication that customers share with one another about products, brands, and companies. Customers may also choose to go online to find electronic word of mouth about products or companies. Buzz marketing is an attempt to incite publicity and public excitement surrounding a product through a creative event. Viral marketing is a strategy to get consumers to share a marketer's message, often through e-mail or online videos, in a way that spreads dramatically and quickly.

7 Understand product placement promotions.

Product placement is the strategic location of products or product promotions within entertainment media to reach the product's target market. In-program product placements have been successful in reaching consumers as they are being

entertained rather than in the competitive commercial break time periods.

8 Examine criticisms and defenses of promotion.

Promotional activities can help consumers make informed purchasing decisions, but they have also evoked many criticisms. Promotion has been accused of deception. Although some deceiving or misleading promotions do exist, laws, government regulation, and industry self-regulation minimize deceptive promotion. Promotion has been blamed for increasing prices, but it usually tends to lower

them. When demand is high, production and marketing costs decrease, which can result in lower prices. Moreover, promotion helps keep prices lower by facilitating price competition. Other criticisms of promotional activity are that it manipulates consumers into buying products they do not need, that it leads to a more materialistic society, and that consumers do not benefit sufficiently from promotional activity to justify its high cost. Finally, some critics of promotion suggest that potentially harmful products, especially those associated with violence, sex, and unhealthy activities, should not be promoted at all.

ONLINE RESOURCES

Please visit the student website at www.cengagebrain.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

integrated marketing
communications 461

communication 463

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noise 465

feedback 465

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promotion 465

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push policy 477

pull policy 478

word-of-mouth communication 478

buzz marketing 479

viral marketing 479

product placement 480

ISSUES FOR DISCUSSION AND REVIEW

1. What does the term *integrated marketing communications* mean?
2. Define *communication* and describe the communication process. Is it possible to communicate without using all the elements in the communication process? If so, which elements can be omitted?
3. Identify several causes of noise. How can a source reduce noise?
4. What is the major task of promotion? Do firms ever use promotion to accomplish this task and fail? If so, give several examples.
5. Describe the possible objectives of promotion and discuss the circumstances under which each objective might be used.
6. Identify and briefly describe the four promotional methods an organization can use in its promotion mix.
7. What forms of interpersonal communication besides language can be used in personal selling?
8. How do target market characteristics determine which promotional methods to include in a promotion mix? Assume a company is planning to

- promote a cereal to both adults and children. Along what major dimensions would these two promotional efforts have to differ from each other?
9. How can a product's characteristics affect the composition of its promotion mix?
 10. Evaluate the following statement: "Appropriate advertising media are always available if a company can afford them."
 11. Explain the difference between a pull policy and a push policy. Under what conditions should each policy be used?
 12. In which ways can word-of-mouth communication influence the effectiveness of a promotion mix for a product?
 13. Which criticisms of promotion do you believe are the most valid? Why?
 14. Should organizations be allowed to promote offensive, violent, sexual, or unhealthy products that can be legally sold and purchased? Support your answer.

MARKETING APPLICATIONS

1. The overall objective of promotion is to stimulate demand for a product. Through television advertising, the American Dairy Association promotes the benefits of drinking milk, a campaign that aims to stimulate primary demand. Advertisements for a specific brand of milk focus on stimulating selective demand. Identify two television commercials, one aimed at stimulating primary demand and one aimed at stimulating selective demand. Describe each commercial and discuss how each attempts to achieve its objective.
2. Developing a promotion mix is contingent on many factors, including the type of product and the product's attributes. Which of the four promotional methods—advertising, personal selling, public relations, or sales promotion—would you emphasize if you were developing the promotion mix for the following products? Explain your answers.
 - a. Washing machine
 - b. Cereal
 - c. Halloween candy
 - d. Compact disc
3. Suppose marketers at Falcon International Corporation have come to you for recommendations on how to promote their products. They want to develop a comprehensive promotional campaign and have a generous budget with which to implement their plans. What questions would you ask

them, and what would you suggest they consider before developing a promotional program?

4. Marketers must consider whether to use a push or a pull policy when deciding on a promotion mix (see Figure 16.4). Identify a product for which marketers should use each policy and a third product that might best be promoted using a mix of the two policies. Explain your answers.

ONLINE EXERCISE

5. Myspace is not just for friends. It is also a unique promotional platform for musical artists, especially unsigned and independent artists. By creating a Myspace page, musicians can share their songs, post important dates, or even blog. Myspace music pages are different from record company websites because they feel more personal. Artists also take advantage of Myspace's viral nature by allowing other Myspace members to post their pictures, songs, and music videos on their own Myspace profile pages. Visit the website at <http://music.myspace.com>.
 - a. Who is the target market for members?
 - b. What is being promoted to these individuals?
 - c. What are the promotional objectives of this website?
 - d. Is word-of-mouth communication occurring at this website? Explain.

DEVELOPING YOUR MARKETING PLAN

A vital component of a successful marketing strategy is the company's plan for communication to its stakeholders. One segment of the communication plan is included in the marketing mix as the promotional element. A clear understanding of the role that promotion plays, as well as the various methods of promotion, is important in developing the promotional plan. The following questions should assist you in relating the information in this chapter to several decisions in your marketing plan.

1. Review the communication process in Figure 16.1. Identify the various players in the communication process for promotion of your product.
2. What are your objectives for promotion? Use Table 16.2 as a guide in answering this question.
3. Which of the four elements of the promotional mix are most appropriate for accomplishing your objectives? Discuss the advantages and disadvantages of each.
4. What role should word-of-mouth communication, buzz marketing, or product placement play in your promotional plan?

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

THE TOLEDO MUD HENS MAKE MARKETING FUN

Since their dismal beginnings in 1896 when they played near a swamp (earning the name Mud Hens in honor of the coots inhabiting the marshy land), the Triple-A Toledo Mud Hens have become one of the most successful minor league baseball teams in the country, and their games some of the best attended. How did they leverage their climb from such a murky start? In a word: marketing. With their two slogans, "Toledo's Family Fun Park" and "Experience the Joy of Mudville," the Mud Hens harness the twin themes of family and history. These days, the Mud Hens are the Triple-A affiliate of the major league team the Detroit Tigers. Because the Tigers do all of the hiring and firing of players, trainers, and medical staff, the Mud Hens' home office can focus all of its energy on improving the image and profitability of the Mud Hens enterprise.

The Mud Hens do not have the star power of the major league teams (aside from their popular bird mascots, Muddy and Muddonna), so marketers must seek another way to promote the games. They advertise the games as wholesome, affordable family fun—an alternative to bowling or going to the movies. People of all ages can come to the games and socialize, while

watching potential up-and-coming baseball stars develop into mature athletes. Because there is no star paraphernalia to sell, most of the marketing attention is paid to promoting Mud Hens merchandise, like T-shirts and hats, and food and beverage sales. In fact, the team has been the league leader in ballpark merchandise sales since 2000. The on-premise Swampshop offers dozens of styles of T-shirts and baseball caps in all sizes. Truly avid fans can shop online from anywhere in the world. As fans wear the merchandise, it creates good word-of-mouth advertising and buzz about the team.

The league's continued sales and revenue growth stand in contrast to an overall downturn in attendance and purchases at minor league baseball games. This statistic attests to the strength of the Mud Hens' marketing strategy. They market directly to advance ticket buyers in order to target those people who are apt to buy tickets early, buy in quantity, and spend cash at the games. Other marketing channels include radio, television, print media, and even Facebook. The Mud Hens enjoy an especially close relationship with local newspapers, where a prominent story about the team is almost guaranteed whenever the Mud Hens have a home game.

Even in the midst of a recession, the Toledo Mud Hens managed to boost revenues by incorporating a new network to integrate its e-mail platform with other applications. This ability allows the Mud Hens to target segments of its customer base with tailored messages. For example, in a recent year, three of the Mud Hen suite rentals were available, without any obvious takers. By using the new system to identify customers who had clicked on the online suite rental links in the past six months, the Mud Hens sent e-mails to 50 to 60 specific people to inform them about the rentals' vacancies. All three suites were rented that same day. By integrating this new system into its marketing communications strategy, the Mud Hens are able to coordinate promotional and marketing efforts so as to have maximum impact on customers.

In addition to its successful marketing strategies, the Mud Hens have become an integral part of the community—through direct marketing and regular media coverage, but also through charitable endeavors. Because the marketing focus is so much

on family fun, community, and socializing, the organization does its best to give back to the community that so avidly supports them. The organization engages in educational and community outreach through various programs such as Muddy's Knothole Club, which provides tickets to underprivileged kids; regular fundraisers and auctions; and donations to local charities. Even pro-bono activities such as these can be part of a well-managed, integrated marketing communications strategy because they increase goodwill toward the organization and encourage people to attend games.⁴¹

QUESTIONS FOR DISCUSSION

1. How do the Toledo Mud Hens use integrated marketing communications to promote their enterprise?
2. How do the Mud Hens identify and market to their target audience?
3. Suggest how the Mud Hens can gain publicity in order to maintain and increase attendance?

CHAPTER 17

Advertising and Public Relations

OBJECTIVES:

- 1 Describe the nature and types of advertising.
- 2 Explore the major steps in developing an advertising campaign.
- 3 Identify who is responsible for developing advertising campaigns.
- 4 Examine the tools used in public relations.
- 5 Analyze how public relations is used and evaluated.



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MARKETING INSIGHTS

How Twitter and Interactive TV Are Changing Advertising

With the advent of TiVo, DVR, and online streaming, advertisers are being forced to connect with audiences in different ways. Twitter may be the life line they need. The company offers advertisers a number of ways to reach consumers, but its pièce de résistance may be its ability to bring viewers back to live TV.

In 2010, Twitter officially began catering to advertisers via promoted tweets, accounts, and trends. Promoted accounts are paid advertisements that appear in the right-hand corner of the site, while promoted trends appear once a day among the most popular Twitter topics. Companies paying for these services receive valuable feedback on how consumers react to their ads, such as how many people “favorite” each ad. Large companies such as Starbucks and Coca-Cola are taking advantage of this technology in their advertising programs.

If Twitter can convince people to watch live TV, and thereby commercials, it could attract many of the world’s largest advertisers. By creating a way to watch shows while communicating with thousands of other viewers in real-time, Twitter is making TV interactive. For example, CNN has used tweets in its coverage of Obama’s State of the Union address to capture consumer sentiments during broadcasts. People are also flocking back to the Super Bowl, the Academy Awards, and other TV events in greater numbers, and analysts believe this is thanks, in large part, to being able to tweet about it.

Twitter’s goal appears to be a blend of old and new: return viewers to traditional TV advertising and allow those same advertisers to reach consumers on Twitter’s new ad platform. The possibilities have captured advertisers’ attention.¹

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Both large organizations and small companies use conventional and online promotional efforts such as advertising to change their corporate images, build brand equity, launch new products, or promote current brands. In this chapter, we explore several dimensions of advertising and public relations. First, we focus on the nature and types of advertising. Next, we examine the major steps in developing an advertising campaign and describe who is responsible for developing such campaigns. We then discuss the nature of public relations and how it is used. We examine various public relations tools and ways to evaluate the effectiveness of public relations. Finally, we focus on how companies deal with unfavorable public relations.

The Nature and Types of Advertising

Advertising permeates our daily lives. At times, we view it positively; at other times, we feel bombarded and try to avoid it. Some advertising informs, persuades, or entertains us; some bores, annoys, or even offends us.

As mentioned in Chapter 16, **advertising** is a paid form of nonpersonal communication that is transmitted to a target audience through mass media, such as television, radio, the Internet, newspapers, magazines, direct mail, outdoor displays, and signs on mass transit vehicles. Spending more than \$1 billion a year in advertising, McDonald's has successfully branded and advertised its products. In one study of children three to five years old, food packaged in a McDonald's wrapper was perceived as better tasting even when the food in the plain wrapper was the same food. Effective advertising can influence purchase behavior throughout a lifetime, as McDonald's hopes to do in effectively communicating its message to children.² Organizations use advertising to reach a variety of audiences ranging from small, specific groups, such as stamp collectors in Idaho, to extremely large groups, such as all athletic-shoe purchasers in the United States.

When asked to name major advertisers, most people immediately mention business organizations. However, many nonbusiness organizations—including governments, churches, universities, and charitable organizations—employ advertising to communicate with stakeholders. Each year, the U.S. government spends hundreds of millions of dollars in advertising to advise and influence the behavior of its citizens. Although this chapter analyzes advertising in the context of business organizations, much of the following material applies to all types of organizations. For example, the state of Wyoming is utilizing advertising campaigns to attract vacationers to the state. Tourism is the second largest industry in Wyoming. Wyoming's tourism campaigns have generated more than 7.3 million overnight visits with \$2.5 billion in direct, travel-related expenses. Wyoming also wants to increase its film industry incentives to attract more filmmakers to the state.³

Advertising is used to promote goods, services, ideas, images, issues, people, and anything else advertisers want to publicize or foster. Depending on what is being promoted, advertising can be classified as institutional or product advertising. **Institutional advertising** promotes organizational images, ideas, and political issues. It can be used to create or maintain an organizational image. Institutional advertisements may deal with broad image issues, such as organizational strength or the friendliness of employees. They may also aim to create a more favorable view of the organization in the eyes of noncustomer groups such as shareholders, consumer advocacy groups, potential shareholders, or the general public. When a company promotes its position on a public issue—for instance, a tax increase, abortion, gun control, or international trade coalitions—institutional advertising is referred to as **advocacy advertising**. Such advertising may be used to promote socially

advertising

Paid nonpersonal communication about an organization and its products transmitted to a target audience through mass media

institutional advertising

Advertising that promotes organizational images, ideas, and political issues

advocacy advertising

Advertising that promotes a company's position on a public issue



Courtesy of the Advertising Archives

Advocacy Advertising

Ben & Jerry's Ice Cream advocates environmental conservation in its new-product offerings.

product advertising

Advertising that promotes the uses, features, and benefits of products

pioneer advertising

Advertising that tries to stimulate demand for a product category rather than a specific brand by informing potential buyers about the product

competitive advertising

Tries to stimulate demand for a specific brand by promoting its features, uses, and advantages relative to competing brands

approved behavior such as recycling or moderation in consuming alcoholic beverages. Philip Morris, for example, has run television advertisements encouraging parents to talk to their children about not smoking. Research has identified a number of themes that advertisers like Philip Morris can use to increase the effectiveness of antismoking messages for adolescents.⁴ This type of advertising not only has social benefits but also helps build an organization's image.

Product advertising promotes the uses, features, and benefits of products. There are two types of product advertising: pioneer and competitive. **Pioneer advertising** focuses on stimulating demand for a product category (rather than a specific brand) by informing potential customers about the product's features, uses, and benefits. This type of advertising is employed when the product is in the introductory stage of the product life cycle, exemplified in the launch of the Nissan Leaf in the new electric car category. **Competitive advertising** attempts to stimulate demand for a specific brand by promoting the brand's features, uses, and advantages, sometimes through indirect or direct comparisons with competing brands. Cell phone service providers use competitive advertising to position their brands—for example, AT&T against Verizon. Advertising effects on sales must reflect competitors' advertising activities. The type of competitive environment will determine the most effective industry approach.

To make direct product comparisons, marketers use a form of competitive advertising called **comparative advertising**, which compares the sponsored brand with one or more identified competing brands on the basis of one or more product characteristics. Advil PM, for example, used comparative advertising to promote the effectiveness of its over-the-counter sleeping pill as compared to Tylenol PM. Often, the brands that are promoted through comparative advertisements have low market shares and are compared with competitors that have the highest market shares in the product category. Product categories that commonly use comparative advertising include soft drinks, toothpaste, pain relievers, foods, tires, automobiles, and detergents. Under the provisions of the 1988 Trademark Law Revision Act, marketers using comparative advertisements in the United States must not misrepresent the qualities or characteristics of competing products. Other countries may have laws that are stricter or less strict with regard to comparative advertising.

Other forms of competitive advertising include reminder and reinforcement advertising. **Reminder advertising** tells customers that an established brand is still around and still offers certain characteristics, uses, and advantages. Clorox, for example, reminds customers about the many advantages of its bleach products, such as their ability to kill germs, whiten clothes, and remove stains. **Reinforcement advertising** assures current users that they have made the right brand choice and tells them how to get the most satisfaction from that brand. Insurance companies such as Geico encourage potential new customers to spend 15 minutes on the phone getting an insurance quote and save 15 percent or more on their policy. Value propositions such as Geico's can provide reinforcement to consumers that they are making a good decision as a new or current customer.

Developing an Advertising Campaign

An **advertising campaign** involves designing a series of advertisements and placing them in various advertising media to reach a particular target audience. As Figure 17.1 shows, the major steps in creating an advertising campaign are (1) identifying and analyzing the target audience, (2) defining the advertising objectives, (3) creating the advertising platform, (4) determining the advertising appropriation, (5) developing the media plan, (6) creating the advertising message, (7) executing the campaign, and (8) evaluating advertising effectiveness. The number of steps and the exact order in which they are carried out may vary according to the organization's resources, the nature of its product, and the type of target audience to be reached. Nevertheless, these general guidelines for developing an advertising campaign are appropriate for all types of organizations.

IDENTIFYING AND ANALYZING THE TARGET AUDIENCE

The **target audience** is the group of people at whom advertisements are aimed. Advertisements for the Dyson vacuum cleaner target more affluent home owners, whereas the Dirt Devil targets lower- to middle-income households. Identifying and analyzing the target audience are critical processes; the information yielded helps determine other steps in developing the campaign. The target audience may include everyone in the firm's target market. Marketers may, however, direct a campaign at only a portion of the target market. For instance, companies like Kraft Foods and Anheuser-Busch InBev are targeting the Latino population with Spanish-language advertising and other promotions. Interestingly, Pizza Patrón, a 100-unit pizza chain traditionally geared toward Hispanic consumers, is taking greater pains to attract English speakers. Its efforts include adding more English on

comparative advertising

Compares the sponsored brand with one or more identified brands on the basis of one or more product characteristics

reminder advertising

Advertising used to remind consumers about an established brand's uses, characteristics, and benefits

reinforcement advertising

Advertising that assures users they chose the right brand and tells them how to get the most satisfaction from it

advertising campaign

The creation and execution of a series of advertisements to communicate with a particular target audience

target audience

The group of people at whom advertisements are aimed

FIGURE 17.1 General Steps in Developing and Implementing an Advertising Campaign





Courtesy of the Advertising Archives

Target Audience

The Gap stores consist of Old Navy, The Gap, and Banana Republic, all with different target markets. Banana Republic, for example, targets individuals who have more to spend on upscale clothes.

its menus and allocating 70 percent of its advertising budget toward English-language advertising on radios and televisions.⁵

Advertisers research and analyze advertising targets to establish an information base for a campaign. Information commonly needed includes location and geographic distribution of the target group; the distribution of demographic factors, such as age, income, race, gender, and education; lifestyle information; and consumer attitudes regarding purchase and use of both the advertiser's products and competing products. The exact kinds of information an organization finds useful depend on the type of product being advertised, the characteristics of the target audience, and the type and amount of competition. Generally, the more an advertiser knows about the target audience, the more likely the firm is to develop an effective advertising campaign. When MIT students and their professor developed the iRobot Roomba Vacuum Cleaning Robot, they knew their target market would embrace a robot that helped in cleaning. Created in 1990, today iRobot is a \$300 million publically traded company.⁶ When the advertising target is not precisely identified and properly analyzed, the campaign may fail.

DEFINING THE ADVERTISING OBJECTIVES

The advertiser's next step is to determine what the firm hopes to accomplish with the campaign. Because advertising objectives guide campaign development, advertisers should define objectives carefully. Advertising

objectives should be stated clearly, precisely, and in measurable terms. Precision and measurability allow advertisers to evaluate advertising success at the end of the campaign in terms of whether objectives have been met. To provide precision and measurability, advertising objectives should contain benchmarks and indicate how far the advertiser wishes to move from these standards. If the goal is to increase sales, the advertiser should state the current sales level (the benchmark) and the amount of sales increase sought through advertising. An advertising objective should also specify a time frame so that advertisers know exactly how long they have to accomplish the objective. An advertiser with average monthly sales of \$450,000 (the benchmark) might set the following objective: "Our primary advertising objective is to increase average monthly sales from \$450,000 to \$540,000 within 12 months."

If an advertiser defines objectives on the basis of sales, the objectives focus on increasing absolute dollar sales or unit sales, increasing sales by a certain percentage, or increasing the firm's market share. Even though an advertiser's long-run goal is to increase sales, not all campaigns are designed to produce immediate sales. Some campaigns aim to increase product or brand awareness, make consumers' attitudes more favorable, heighten consumers' knowledge of product features, or create awareness of positive, healthy consumer behavior such as non-smoking. If the goal is to increase product awareness, the objectives are stated in terms of communication. A specific communication objective might be to increase product feature awareness from 0 to 40 percent in the target audience by the end of six months.

CREATING THE ADVERTISING PLATFORM

Before launching a political campaign, party leaders develop a political platform stating major issues that are the basis of the campaign. Like a political platform, an **advertising platform** consists of the basic issues or selling points that an advertiser wishes to include in the advertising campaign. For instance, Best Buy advertises that if you buy new technology now, it will buy it back when it is time to upgrade. A single advertisement in an advertising campaign may contain one or several issues from the platform. Although the platform sets forth the basic issues, it does not indicate how to present them.

An advertising platform should consist of issues important to customers. One of the best ways to determine those issues is to survey customers about what they consider most important in the selection and use of the product involved. Selling features must not only be important to customers, they should also be strongly competitive features of the advertised brand. For instance, E*Trade capitalizes upon its positioning of “liberation and value.” E*Trade is a competitively priced investment tool that offers easily accessible and usable investor features. Customer research validates the value proposition’s use in E*Trade advertising.⁷ Although research is the most effective method for determining what issues to include in an advertising platform, it is expensive. Therefore, an advertising platform is most commonly based on opinions of personnel within the firm and of individuals in the advertising agency, if an agency is used. This trial-and-error approach generally leads to some successes and some failures.

Because the advertising platform is a base on which to build the advertising message, marketers should analyze this stage carefully. A campaign can be perfect in terms of selection and analysis of its target audience, statement of its objectives, media strategy, and the form of its message. But the campaign will ultimately fail if the advertisements communicate information that consumers do not deem important when selecting and using the product.

DETERMINING THE ADVERTISING APPROPRIATION

The **advertising appropriation** is the total amount of money a marketer allocates for advertising for a specific time period. To increase consumer response rates to the 2010 Census, the U.S. government budgeted \$340 million on promotional campaigns, of which \$140 million was for paid television advertising.⁸ It is difficult to determine how much to spend on advertising for a specific period because the potential effects of advertising are so difficult to measure precisely. However, data from previous U.S. Census periods underscore the importance of advertising. To reduce costs, the U.S. Census Bureau began mailing census forms to citizens in 1970. That same year, the response rate was 78 percent. In 1980, the number of returned forms was 75 percent, with a significant fall-off in 1990 to 65 percent. In 2000, to assist in reversing the falling response rate, the Census Bureau started to advertise. The advertising effort resulted in a 67 percent response rate. Was the investment in advertising worth the money? It is estimated that each 1 percent increase in response rate on the Census saves the U.S. government \$85 million.⁹



Entrepreneurship in Marketing

Schibsted Excels at Online Classified Ads

Most companies try to avoid cannibalizing their existing products. Not Norwegian media group Schibsted, founded in 1839 by Christian Michael Schibsted. The company embraced the opportunity to invest in the online classifieds business, knowing this could cannibalize its print ads. As a result, Schibsted currently runs the third largest global online classifieds service, behind Craigslist and eBay. Though it was founded more than 150 years ago as a print media company, Schibsted’s ability to adapt has helped it thrive. Although it still produces print publications, its online classifieds business is in 22 countries and makes up for losses in print revenue. Schibsted’s online classified listings are free, although the company will give ads better placement for a fee. Because operation costs are low, it is easier to profit online. When Schibsted runs into competition, it often seeks to buy or merge with the competing company, thereby curtailing the competition and adding to its own growth. Thanks to its perseverance and willingness to take risks, Schibsted is succeeding where similar companies are faltering.^a

advertising platform

Basic issues or selling points to be included in an advertising campaign

advertising appropriation

The advertising budget for a specific time period

Many factors affect a firm's decision about how much to appropriate for advertising. Geographic size of the market and the distribution of buyers within the market have a great bearing on this decision. Both the type of product advertised and the firm's sales volume relative to competitors' sales volumes also play roles in determining what proportion of revenue to spend on advertising. Advertising appropriations for business products are usually quite small relative to product sales, whereas consumer convenience items, such as soft drinks, soaps, and cosmetics, generally have large advertising expenditures relative to sales. Table 17.1 shows the top 10 advertisers for 2010.

Of the many techniques used to determine the advertising appropriation, one of the most logical is the **objective-and-task approach**. Using this approach, marketers determine the objectives a campaign is to achieve and then attempt to list the tasks required to accomplish them. The costs of the tasks are calculated and added to arrive at the total appropriation. This approach has one main problem: marketers sometimes have trouble accurately estimating the level of effort needed to attain certain objectives. A coffee marketer, for example, may find it extremely difficult to determine how much of an increase in national television advertising is needed to raise a brand's market share from 8 to 10 percent.

In the more widely used **percent-of-sales approach**, marketers simply multiply the firm's past sales, plus a factor for planned sales growth or decline, by a standard percentage based on both what the firm traditionally spends on advertising and the industry average. This approach, too, has a major flaw: it is based on the incorrect assumption that sales create advertising rather than the reverse. A marketer using this approach during declining sales will reduce the amount spent on advertising, but such a reduction may further diminish sales. Though illogical, this technique has been favored because it is easy to implement.

Another way to determine advertising appropriation is the **competition-matching approach**. Marketers following this approach try to match their major competitors' appropriations in absolute dollars or to allocate the same percentage of sales for advertising that their competitors do. Although a marketer should be aware of what competitors spend on advertising, this technique should not be used alone because the firm's competitors probably have different advertising objectives and different resources available for advertising. Many

objective-and-task approach

Budgeting for an advertising campaign by first determining its objectives and then calculating the cost of all the tasks needed to attain them

percent-of-sales approach

Budgeting for an advertising campaign by multiplying the firm's past and expected sales by a standard percentage

competition-matching approach

Determining an advertising budget by trying to match competitors' advertising outlays

TABLE 17.1 Top 10 Advertisers

Rank	Company	Expenditures (in Millions of U.S. Dollars)
1	Procter & Gamble Co.	\$4,188.9
2	Verizon Communications Inc.	3,020.0
3	AT&T	2,797.0
4	General Motors Corp.	2,214.9
5	Pfizer	2,097.0
6	Johnson & Johnson	2,060.9
7	Walt Disney Corp.	2,003.8
8	Time Warner	1,848.1
9	L'Oreal	1,833.6
10	Kraft	1,748.4

Source: "Marketer Trees 2010," *Advertising Age*, <http://adage.com/marketertrees2010update/> (accessed February 2, 2011).

companies and advertising agencies review competitive spending on a quarterly basis, comparing competitors' dollar expenditures on print, radio, and television with their own spending levels. Competitive tracking of this nature occurs at both the national and regional levels.

At times, marketers use the **arbitrary approach**, which usually means a high-level executive in the firm states how much to spend on advertising for a certain period. The arbitrary approach often leads to underspending or overspending. Although hardly a scientific budgeting technique, it is expedient.

Deciding how large the advertising appropriation should be is critical. If the appropriation is set too low, the campaign cannot achieve its full potential. When too much money is appropriated, overspending results, and financial resources are wasted.

DEVELOPING THE MEDIA PLAN

As Figure 17.2 shows, advertisers spend tremendous amounts on advertising media. These amounts have grown rapidly during the past two decades. To derive maximum results from media expenditures, marketers must develop effective media plans. A **media plan** sets forth the exact media vehicles to be used (specific magazines, television stations, social media, newspapers, and so forth) and the dates and times the advertisements will appear. The plan determines how many people in the target audience will be exposed to the message. Table 17.2 illustrates how advertising through digital media formats is expected to grow. The method also determines, to some degree, the effects of the message on those specific target markets. Media planning is a complex task requiring thorough analysis of the target audience. Sophisticated computer models have been developed to attempt to maximize the effectiveness of media plans.

To formulate a media plan, the planners select the media for the campaign and prepare a time schedule for each medium. The media planner's primary goal is to reach the largest number of people in the advertising target that the budget will allow. A secondary goal is to achieve the appropriate message reach and frequency for the target audience while staying within budget. *Reach* refers to the percentage of consumers in the target audience actually exposed to a particular advertisement in a stated period. *Frequency* is the number of times these targeted consumers are exposed to the advertisement.

arbitrary approach

Budgeting for an advertising campaign as specified by a high-level executive in the firm

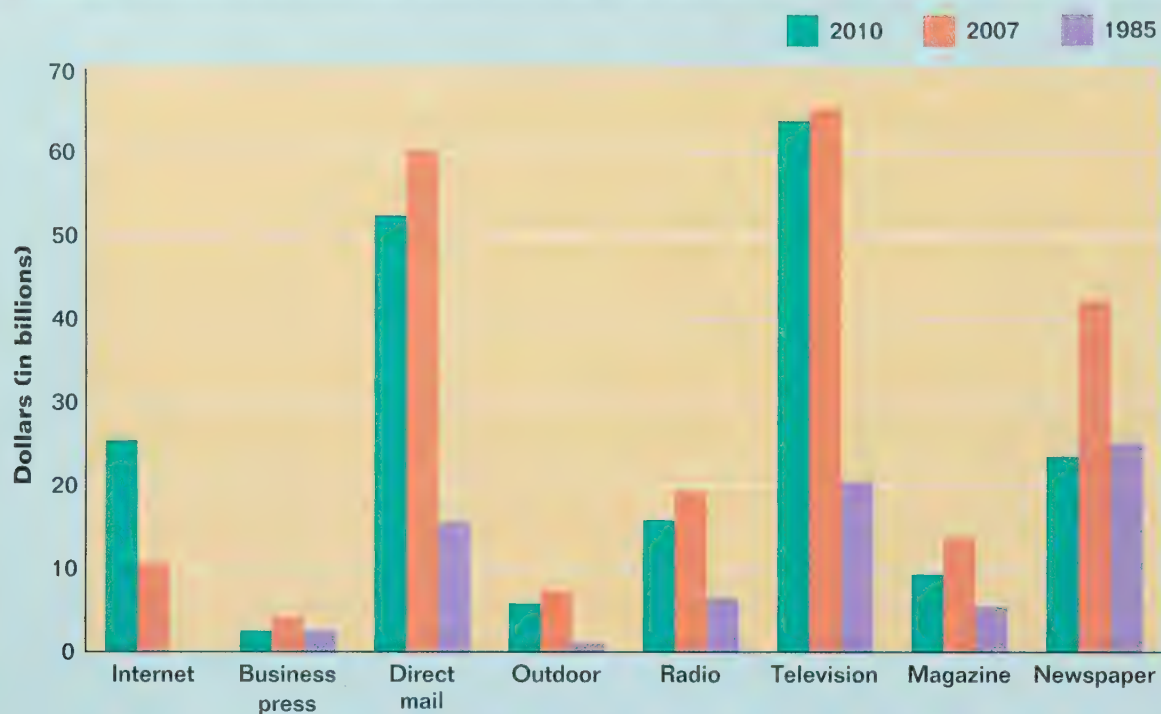
media plan

A plan that specifies the media vehicles to be used and the schedule for running advertisements



Media Plan

The Budweiser Clydesdale horses are part of the company's print and broadcast media plan.

FIGURE 17.2 Advertising Spending by Media Category: 1985, 2007, and 2010

Source: Total U.S. Advertising Spending by Medium (\$ in millions), Advertising Age, October 27, 2009 www.businessinsiden.com/us-advertising-spending-by-medium-2009-10 (accessed March 29, 2010).

TABLE 17.2 U.S. Online Ad Spending Forecasts (in Billions), 2010–2015

	2010	2011	2012	2013	2014	2015
Search	\$12.00	\$14.38	\$17.03	\$18.85	\$20.19	\$21.53
Banner ads	6.23	7.61	8.94	9.93	10.97	11.73
Classifieds and directories	2.60	3.00	3.35	3.65	3.98	4.29
Video	1.42	2.16	3.09	4.20	5.64	7.11
Rich media	1.54	1.66	1.73	1.74	1.73	1.68
Lead generation	1.34	1.42	1.45	1.47	1.50	1.52
Sponsorships	0.72	0.91	1.05	1.18	1.32	1.47
E-mail	0.20	0.16	0.16	0.17	0.17	0.18
Total	\$26.04	\$31.30	\$36.80	\$41.20	\$45.50	\$49.50

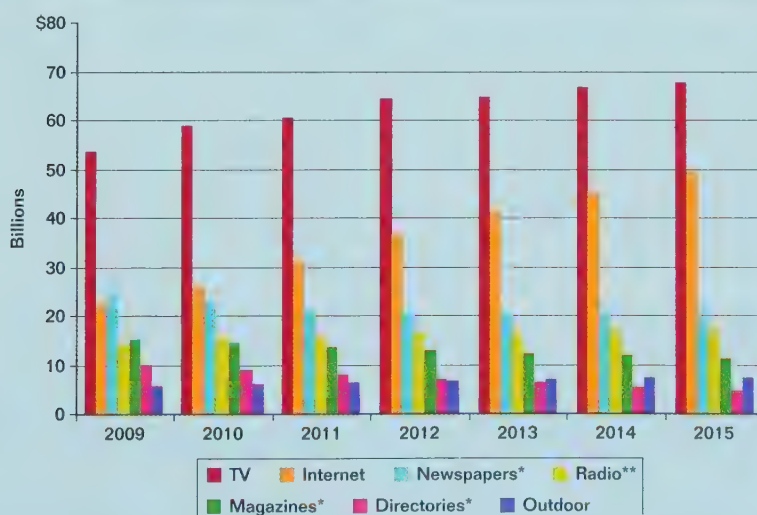
Source: "Online Advertising Market Poised to Grow 20% in 2011," *eMarketer*, December 2010, www.emarketer.com/PressRelease.aspx?R=1008432 (accessed August 5, 2011).

Media planners begin with broad decisions but eventually make very specific ones. They first decide which kinds of media to use: radio, television, newspapers, digital advertising, magazines, direct mail, outdoor displays, or signs on mass transit vehicles. Digital marketing in particular is growing, with companies allocating 12 percent of advertising spending to digital outlets, and it is projected to grow to 21 percent in five years. Media planners assess different formats and approaches to determine which are most effective. Some media plans are highly focused and use just one medium. Others can be quite complex and dynamic.

Media planners take many factors into account when devising a media plan. They analyze location and demographic characteristics of consumers in the target audience because people's tastes in media differ according to demographic groups and locations. Media planners also consider the sizes and types of audiences that specific media reach. For instance, *Glamour* magazine reaches relatively affluent women who are interested in fashion. Approximately 75 percent of its readership has a household income of more than \$75,000 with a median age of 35. Many marketers of cosmetics, clothing, and fashion items would consider this an attractive demographic.¹⁰ Declining broadcast television ratings and newspaper and magazine readership have led many companies to explore alternative media, including not only cable television and digital advertising but also ads on cell phones and product placements in video games. Nissan is offering an alternative medium for advertising on its trucks. With the introduction of its first commercial trucks into America, Nissan is offering companies the chance to include up to 70 square feet of advertising on these trucks for no charge.¹¹ New media like social networking sites are also attracting advertisers due to their large reach. As Figure 17.3 demonstrates, in 2010 online advertisements surpassed newspaper ads for the first time.

The rise in digital marketing is creating a dramatic shift for advertising agencies. Whereas competition came mostly from other agencies before, today professional ad agencies face competition from amateur ad makers (consider the Doritos ad that won the 2009 Super Bowl Ad Meter) along with technology companies. For instance, crowdsourcing by organizations such as Victor & Spoils is placing the roles of traditional advertising agencies into the hands of creatives across the world. Digital marketing is not reduced to one medium, but can include platforms such as social networks, ebooks, iPads, geotargeting, and mobile apps. Agencies that choose to embrace the new advertising media are facing challenges in adapting

FIGURE 17.3 U.S. Total Media Ad Spending (in Billions), 2009–2015



Note: Numbers may not add up due to rounding.

* Print only.

** Excludes off-air radio and digital.

Source: eMarketer, June, 2011, www.emarketer.com/. Used with permission.

Digital Advertising

Heinz held a competition for consumers to submit TV commercials and let viewers select the winner.

The image is a screenshot of a website for the Heinz 'Top This!' TV Challenge. On the left, there is a large Heinz Tomato Ketchup bottle with a woman standing next to it. Above the bottle is a 'TOP THIS! TV CHALLENGE' logo with a clapperboard that says 'TAKE 2'. To the left of the bottle, a text box reads: 'Okay, so some really terrific commercials have been shot, cut and submitted. Our esteemed panel of judges chose the 10 semi-finalists. And you chose the winner, Matt Cozza! Check out the winning video.' To the right of the bottle, there are navigation links: 'ABOUT THE CHALLENGE', 'VIEW THE WINNERS', 'VIEW TAKE 2 VIDEOS', and a 'SEND TO A FRIEND' button. The main headline reads 'AND THE WINNER IS... NOW WE CAN EAT MATT COZZA, CHICAGO, IL'. Below this is a link to 'WATCH THE WINNING VIDEO'. Further down, a section titled 'AND THE RUNNER UPS:' lists four winners: 'HEINZ GENERATIONS' (Eric Michael Hopper, Buford, GA), 'STILL GOING' (Josh Greenbaum, Los Angeles, CA), 'HEINZ MAGICIAN' (Jesse Harris, Seattle, WA), and 'LIFE LESSONS' (Daniel Trumble, Marietta, GA). At the bottom, there is a 'HEINZ' logo and a footer with links for 'Privacy Policy', 'Site Map', 'Official Rules', and 'Heinz', along with the copyright notice '© H.J. Heinz Company, L.P. 2007'.

Courtesy of H. J. Heinz Company, L.P.

but are finding increased profitability along the way. One success story is the Old Spice Man “social media blitz” coordinated by ad agency Wieden + Kennedy. The humorous “The Man Your Man Can Smell Like” campaign featured former NFL receiver Isaiah Mustafa, who claimed that even though most men cannot look like him, they can still smell like him with Old Spice. Wieden + Kennedy created 200 YouTube videos in a mere 48 hours.¹²

The content of the message sometimes affects media choice. Print media can be used more effectively than broadcast media to present complex issues or numerous details in single advertisements. If an advertiser wants to promote beautiful colors, patterns, or textures, media offering high-quality color reproduction, such as magazines or television, should be used instead of newspapers. For example, food can be effectively promoted in full-color magazine advertisements but far less effectively in black and white media.

The cost of media is an important but troublesome consideration. Planners try to obtain the best coverage possible for each dollar spent. However, there is no accurate way to compare the cost and impact of a television commercial with the cost and impact of a newspaper advertisement. A **cost comparison indicator** lets an advertiser compare the costs of several vehicles within a specific medium (such as two magazines) in relation to the number of people each vehicle reaches. The *cost per thousand impressions (CPM)* is the cost comparison indicator for magazines; it shows the cost of exposing 1,000 people to one advertisement.

Figures 17.2 and 17.3 show the extent to which digital advertising is growing. Emerging media are being used more extensively in light of media fragmentation and decline in traditional media (newspapers and radio). Media are selected by weighing the various advantages and disadvantages of each (see Table 17.3).

Like media selection decisions, media scheduling decisions are affected by numerous factors, such as target audience characteristics, product attributes, product seasonality, customer media behavior, and size of the advertising budget. There are three general types of media schedules: continuous, flighting, and pulsing. When a *continuous* schedule is used, advertising runs at a constant level with little variation throughout the campaign period. McDonald’s is an example of a company that uses a continuous schedule. With a *flighting* schedule, advertisements run for set periods of time, alternating with periods in which no ads run. For example, an advertising campaign might have an ad run for two weeks, then

cost comparison indicator

A means of comparing the costs of advertising vehicles in a specific medium in relation to the number of people reached

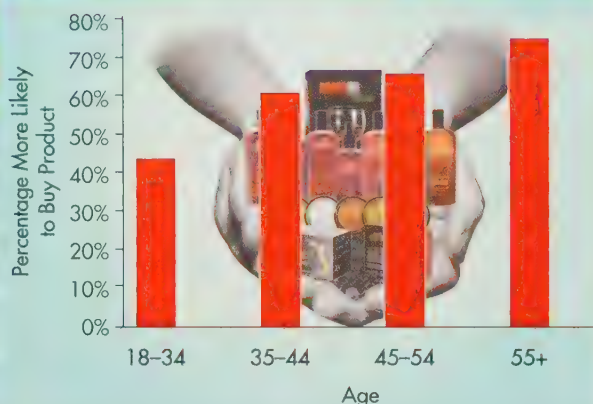
TABLE 17.3 Advantages and Disadvantages of Major Media Classes

Medium	Advantages	Disadvantages
Newspapers	Reaches large audience; purchased to be read; geographic flexibility; short lead time; frequent publication; favorable for cooperative advertising; merchandising services	Not selective for socioeconomic groups or target market; short life; limited reproduction capabilities; large advertising volume limits exposure to any one advertisement
Magazines	Demographic selectivity; good reproduction; long life; prestige; geographic selectivity when regional issues are available; read in leisurely manner	High costs; 30- to 90-day average lead time; high level of competition; limited reach; communicates less frequently
Direct mail	Little wasted circulation; highly selective; circulation controlled by advertiser; few distractions; personal; stimulates actions; use of novelty; relatively easy to measure performance; hidden from competitors	Very expensive; lacks editorial content to attract readers; often thrown away unread as junk mail; criticized as invasion of privacy; consumers must choose to read the ad
Radio	Reaches 95 percent of consumers; highly mobile and flexible; very low relative costs; ad can be changed quickly; high level of geographic and demographic selectivity; encourages use of imagination	Lacks visual imagery; short life of message; listeners' attention limited because of other activities; market fragmentation; difficult buying procedures; limited media and audience research
Television	Reaches large audiences; high frequency available; dual impact of audio and video; highly visible; high prestige; geographic and demographic selectivity; difficult to ignore	Very expensive; highly perishable message; size of audience not guaranteed; amount of prime time limited; lack of selectivity in target market
Internet	Immediate response; potential to reach a precisely targeted audience; ability to track customers and build databases; highly interactive medium	Costs of precise targeting are high; inappropriate ad placement; effects difficult to measure; concerns about security and privacy
Yellow Pages	Wide availability; action and product category oriented; low relative costs; ad frequency and longevity; nonintrusive	Market fragmentation; extremely localized; slow updating; lack of creativity; long lead times; requires large space to be noticed
Outdoor	Allows for frequent repetition; low cost; message can be placed close to point of sale; geographic selectivity; operable 24 hours a day; high creativity and effectiveness	Message must be short and simple; no demographic selectivity; seldom attracts readers' full attention; criticized as traffic hazard and blight on countryside; much wasted coverage; limited capabilities

Sources: William F. Arens, *Contemporary Advertising* (Burr Ridge, IL: Irwin/McGraw-Hill, 2011); George E. Belch and Michael Belch, *Advertising and Promotion* (Burr Ridge, IL: Irwin/McGraw-Hill, 2011).

suspend it for two weeks, and then run it again for two weeks. Companies such as Hallmark, John Deere, and Ray-Ban use a *flighting* schedule. A *pulsing* schedule combines continuous and flighting schedules: during the entire campaign, a certain portion of advertising runs continuously, and during specific time periods of the campaign, additional advertising is used to intensify the level of communication with the target audience.

Which American Consumers Are Most Positively Influenced by "Made In America" Ads?



Source: Adweek Media/Harris Poll, "National Pride Matters as Three in Five Americans More Likely to Purchase Product When Ad Emphasizes 'Made In America,'" October 8, 2010, www.harrisinteractive.com/NewsRoom/HarrisPolls/tabid/447/ctl/ReadCustom%20Default/mid/1508/ArticleId/580/Default.aspx (accessed August 6, 2011)

CREATING THE ADVERTISING MESSAGE

The basic content and form of an advertising message are a function of several factors. A product's features, uses, and benefits affect the content of the message. Characteristics of the people in the target audience—gender, age, education, race, income, occupation, lifestyle, life stage, and other attributes—influence both content and form. For instance, gender affects how people respond to advertising claims that use hedging words such as *may* and *probably* and pledging words such as *definitely* and *absolutely*. Researchers have found that women respond negatively to both types of claims, but pledging claims have little effect on men.¹³ When Procter & Gamble promotes Crest toothpaste to children, the company emphasizes daily brushing and cavity control, focusing on fun and good flavors like bubblegum. When marketing Crest to adults,

P&G focuses on functionality, stressing whitening, enamel protection, breath enhancement, and tartar and plaque control. To communicate effectively, advertisers use words, symbols, and illustrations that are meaningful, familiar, and appealing to people in the target audience.

An advertising campaign's objectives and platform also affect the content and form of its messages. If a firm's advertising objectives involve large sales increases, the message may include hard-hitting, high-impact language, symbols, and messages. The Geico "gecko," Snuggle Bear, and Pillsbury Doughboy are all examples of brand characters or mascots. When campaign objectives aim to increase brand awareness, the message may use much

Press Release

An example of a press release from PR Newswire, the world leader in news and distribution services.

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Who's saying what. Right now.

New York, Jan. 15/PR Newswire/-- PR Newswire, the global leader in commercial news distribution, and Technorati, the authority for citizen media, today announced that for the first time readers of press releases can track online conversations in the blogosphere directly from press releases on www.prnewswire.com.

This marks the first time Technorati has entered into a partnership with a commercial news distribution company, and will help to establish a strong link between two of the most important tools in the communications mix - announcements via press releases and reactions from bloggers.

All individual press releases distributed through PR Newswire will now include a

MULTIVU eWatch MEDIAtlas ProfNet Experts PR Newswire for Journalists CHAT LIVE WITH A PR NEWSWIRE EXPERT PR Newswire web sites

FIGURE 17.4 Geographic Divisions for Time Regional Issues

Sources: Time Magazine, © 2006 Time Inc.; www.aaapublishingnetwork.com.

repetition of the brand name, words, illustrations, or characters associated with it. Thus, the advertising platform is the foundation on which campaign messages are built.

Choice of media obviously influences the content and form of the message. Effective outdoor displays and short broadcast spot announcements require concise, simple messages. Magazine and newspaper advertisements can include considerable detail and long explanations. Because several kinds of media offer geographic selectivity, a precise message can be tailored to a particular geographic section of the target audience. Some magazine publishers produce **regional issues**, in which advertisements and editorial content of copies appearing in one geographic area differ from those appearing in other areas. As Figure 17.4 shows, *Time* magazine publishes eight regional issues. A company advertising in *Time* might decide to use one message in the New England region and another in the rest of the nation. A company may also choose to advertise in only one region. Such geographic selectivity lets a firm use the same message in different regions at different times.

Copy

Copy is the verbal portion of an advertisement and may include headlines, subheadlines, body copy, and a signature. Not all advertising contains all of these copy elements. Even handwritten notes on direct-mail advertising that say, “Try this. It works!” seem to increase requests for free samples.¹⁴ The headline is critical because often it is the only part of the copy that people read. It should attract readers’ attention and create enough interest to make them want to read the body copy or visit the website. The subheadline, if there is one, links the headline to the body copy and sometimes serves to explain the headline.

Body copy for most advertisements consists of an introductory statement or paragraph, several explanatory paragraphs, and a closing paragraph. Some copywriters have adopted guidelines for developing body copy systematically: (1) identify a specific desire or problem,

regional issues

Versions of a magazine that differ across geographic regions

copy

The verbal portion of advertisements

storyboard

A blueprint that combines copy and visual material to show the sequence of major scenes in a commercial

artwork

An advertisement's illustrations and layout

illustrations

Photos, drawings, graphs, charts, and tables used to spark audience interest in an advertisement

layout

The physical arrangement of an advertisement's illustration and copy

(2) recommend the product as the best way to satisfy that desire or solve that problem, (3) state product benefits and indicate why the product is best for the buyer's particular situation, (4) substantiate advertising claims, and (5) ask the buyer to take action. When substantiating claims, it is important to present the substantiation in a credible manner. The proof of claims should help strengthen both the image of the product and company integrity. A shortcut explanation of what much advertising is designed to accomplish is the AIDA model. Advertising should create *awareness*, produce *interest*, create *desire*, and ultimately result in a purchase (*action*). Typeface selection can help advertisers create a desired impression using fonts that are engaging, reassuring, or very prominent.¹⁵

The signature identifies the advertisement's sponsor. It may contain several elements, including the firm's trademark, logo, name, and address. The signature should be attractive, legible, distinctive, and easy to identify in a variety of sizes.

Because radio listeners often are not fully "tuned in" mentally to what they're hearing on the radio, radio copy should be informal and conversational to attract listeners' attention. Radio messages are highly perishable and should consist of short, familiar terms, which increase their impact. The length should not require a rate of speech exceeding approximately 2.5 words per second.

In television copy, the audio material must not overpower the visual material, and vice versa. However, a television message should make optimal use of its visual portion, which can be very effective for product use, applications, and demonstrations. Copy for a television commercial is sometimes initially written in parallel script form. Video is described in the left column and audio in the right. When the parallel script is approved, the copywriter and artist combine copy with visual material by using a **storyboard**, which depicts a series of miniature television screens showing the sequence of major scenes in the commercial. Beneath each screen is a description of the audio portion to be used with that video segment.

Technical personnel use the storyboard as a blueprint when producing the commercial.

Artwork

Artwork consists of an advertisement's illustrations and layout. **Illustrations** are often photographs but can also be drawings, graphs, charts, and tables. Illustrations are used to draw attention, encourage audiences to read or listen to the copy, communicate an idea quickly, or communicate ideas that are difficult to express. Illustrations can be more important in capturing attention than text or brand elements, independent of size.¹⁶ They are especially important because consumers tend to recall the visual portions of advertisements better than the verbal portions. Advertisers use a variety of illustration techniques. They may show the product alone, in a setting, or in use, or show the results of the product's use. Illustrations can also take the form of comparisons, contrasts, diagrams, and testimonials.

The **layout** of an advertisement is the physical arrangement of the illustration and the copy (headline, subheadline, body copy, and signature). These elements can be arranged in many ways. The final layout is the result of several stages of layout preparation. As it moves through these stages, the layout promotes an exchange of ideas among people developing the advertising campaign and provides instructions for production personnel.



Courtesy of the Advertising Archives

Components of a Print Ad

This Nivea ad contains most of the components of a print ad, including a headline, body copy, signature, and illustration. Not all print ads contain all of these components.

Emerging Trends in Marketing



Hyperlocal Websites Challenge Traditional Newspapers

As more people push newspapers aside in favor of online news, hyperlocal news websites are flourishing. Hyperlocal news sites publish content often ignored by larger news organizations, focusing solely on the local community. Because hyperlocal sites tend to incorporate everyday residents as writers, marketers may be tempted to discard their significance. However, a study revealed that 1 in 10 hyperlocal sites produce high-quality content rivaling that of traditional news organizations. Some sites, such as *westseattleblog.com*, are now earning six-figure profits. Both news

organizations and marketers are taking notice. For instance, Every Block—a site posting local news pertaining to 16 major cities—was acquired by msnbc.com. Some major news organizations are beginning to invest in their own hyperlocal sites. Additionally, advertisers are beginning to recognize the opportunities that marketing through hyperlocal media can offer, including the ability to target a more specific area or market. As traditional newspapers decline, new media are emerging that more effectively meet consumers' changing needs.^b

EXECUTING THE CAMPAIGN

Execution of an advertising campaign requires extensive planning and coordination because many tasks must be completed on time and several people and firms are involved. Production companies, research organizations, media firms, printers, and commercial artists are just a few of the people and firms contributing to a campaign.

Implementation requires detailed schedules to ensure that various phases of the work are done on time. Advertising management personnel must evaluate the quality of the work and take corrective action when necessary. Nutrisystem, for example, had to rethink using celebrity endorsers for its prepackaged, low-calorie meals after experiencing declining sales. The company made a strategic decision to begin using more testimonials from customers in its advertising instead. Nutrisystem hopes this new marketing strategy will make the ads appear more real and personal for viewers.¹⁷ In some instances, changes are made during the campaign so it meets objectives more effectively. Sometimes, one firm develops a campaign and another executes it.

EVALUATING ADVERTISING EFFECTIVENESS

A variety of ways exist to test the effectiveness of advertising. They include measuring achievement of advertising objectives; assessing effectiveness of copy, illustrations, or layouts; and evaluating certain media.

Advertising can be evaluated before, during, and after the campaign. An evaluation performed before the campaign begins is called a **pretest**. A pretest usually attempts to evaluate the effectiveness of one or more elements of the message. To pretest advertisements, marketers sometimes use a **consumer jury**, a panel of existing or potential buyers of the advertised product. Jurors judge one or several dimensions of two or more advertisements. Such tests are based on the belief that consumers are more likely than advertising experts to know what influences them. Companies can also solicit the assistance of marketing research firms such as Information Resources Inc. (IRI) to help assess ads.

To measure advertising effectiveness during a campaign, marketers usually rely on "inquiries." In a campaign's initial stages, an advertiser may use several advertisements simultaneously,

pretest

Evaluation of advertisements performed before a campaign begins

consumer jury

A panel of a product's existing or potential buyers who pretest ads

each containing a coupon, form, toll-free phone number, or website through which potential customers can request information. The advertiser records the number of inquiries returned from each type of advertisement. If an advertiser receives 78,528 inquiries from advertisement A, 37,072 from advertisement B, and 47,932 from advertisement C, advertisement A is judged superior to advertisements B and C. Internet advertisers can also assess how many people “clicked” on an ad to obtain more product information. The outdoor advertising industry has created a system called “Eyes On” to determine the audiences likely to see an ad, with demographic and ethnographic data included. Previous measurement systems used Daily Effective Circulation that essentially evolved around traffic counts, not on interested audiences.¹⁸

Evaluation of advertising effectiveness after the campaign is called a **posttest**. Advertising objectives often determine what kind of posttest is appropriate. If the objectives’ focus is on communication—to increase awareness of product features or brands or to create more favorable customer attitudes—the posttest should measure changes in these dimensions. Advertisers sometimes use consumer surveys or experiments to evaluate a campaign based on communication objectives. These methods are costly, however. In posttests, generalizations can be made about why advertising is failing or why media vehicles are not delivering the desired results. Table 17.4 shows some of the beliefs about why digital advertising is failing to deliver to audiences and create the response rates that advertisers hope for.¹⁹

For campaign objectives stated in terms of sales, advertisers should determine the change in sales or market share attributable to the campaign. For example, after a six-month tourism campaign, the increase of visitors to Cook Islands (a group of islands in the South Pacific Ocean) contributed an additional \$8 million into the local economy.²⁰ However, changes in sales or market share brought about by advertising cannot be measured precisely; many factors independent of advertisements affect a firm’s sales and market share. Competitors’ actions, regulatory actions, and changes in economic conditions, consumer preferences, and weather are only a few factors that might enhance or diminish a company’s sales or market share. By using data about past and current sales and advertising expenditures, advertisers can make gross estimates of the effects of a campaign on sales or market share.

Because it is difficult to determine the direct effects of advertising on sales, many advertisers evaluate print advertisements according to how well consumers can remember them. The marketers of HeadOn, a pain reliever, used endless repetition to help consumers recall their

posttest

Evaluation of advertising effectiveness after the campaign

TABLE 17.4 Digital Advertising’s Shortcomings

1.	Overly detail-focused.
2.	Too long to reach the point.
3.	Message is unclear.
4.	Boring or very unattractive design that fails to catch audience’s attention.
5.	Use of “flash” technology for the sake of flash—not for effectively reaching the target audience.
6.	Often visually hard to decipher or read.
7.	Short on recognition of benefits.
8.	Focused Internet users are often angered by promotional messages that do not deliver immediate messages of interest.

Source: Adapted from Philip W. Sawyer, “Why Most Digital Ads Still Fail to Work,” *Advertising Age*, January 27, 2010, http://adage.com/digitalnext/post?article_id=141751 (accessed April 9, 2010).

product and gain rapid sales growth, from \$1.9 million to \$6.5 million in just one year.²¹ Researchers have found that ads that play on the theme of social desirability are more memorable when viewed in the presence of other people.

Posttest methods based on memory include recognition and recall tests. Such tests are usually performed by research organizations through surveys. In a **recognition test**, respondents are shown the actual advertisement and asked whether they recognize it. If they do, the interviewer asks additional questions to determine how much of the advertisement each respondent read. When recall is evaluated, respondents are not shown the actual advertisement but instead are asked about what they have seen or heard recently. For Internet advertising, research suggests that the longer a person is exposed to a website containing a banner advertisement, the more likely he or she is to recall the ad.²²

Recall can be measured through either unaided or aided recall methods. In an **unaided recall test**, respondents identify advertisements they have seen recently but are not shown any clues to help them remember. A similar procedure is used with an **aided recall test**, but respondents are shown a list of products, brands, company names, or trademarks to jog their memories. Schering-Plough, maker of products such as Claritin, Dr. Scholl's, Coppertone, and other pharmaceutical and packaged goods, is increasing its use of digital out-of-home advertising. Claritin's digital, out-of-home advertising produced increased purchase intent among 26 percent of those surveyed, with 73 percent of allergy sufferers reporting increased purchase intent. The unaided ad recall was 9 percent, and the aided ad recall was 38 percent. Results such as these show promise for increasing the variety and location of advertising.²³ Several research organizations, such as Daniel Starch, provide research services that test recognition and recall of advertisements.

The major justification for using recognition and recall methods is that people are more likely to buy a product if they can remember an advertisement about it than if they cannot. However, recalling an advertisement does not necessarily lead to buying the product or brand advertised. Researchers also use a sophisticated technique called *single-source data* to help evaluate advertisements. With this technique, individuals' behaviors are tracked from television sets to checkout counters. Monitors are placed in preselected homes, and microcomputers record when the television set is on and which station is being viewed. At the supermarket checkout, the individual in the sample household presents an identification card. Checkers then record the purchases by scanner, and data are sent to the research facility. Some single-source data companies provide sample households with scanning equipment for use at home to record purchases after returning from shopping trips. Single-source data supplies information that links exposure to advertisements with purchase behavior.

Who Develops the Advertising Campaign?

An advertising campaign may be handled by an individual, a few people within a firm, a firm's own advertising department, or an advertising agency.

In very small firms, one or two individuals are responsible for advertising (and for many other activities as well). Usually, these individuals depend heavily on personnel at local newspapers and broadcast stations for copywriting, artwork, and advice about scheduling media.



Marketing Debate

Marketing on School Property

ISSUE: *Should advertising in schools be allowed?*

As school budgets decrease, many districts are contracting to allow advertising on permission slips, lockers, cafeteria tables, and the outsides of school buildings. The Kentucky House has voted to allow school districts to permit advertising on buses. Some argue that children see too much advertising as it is. Parents also lose control over what their children see. On the flip side, budget cuts are eliminating critical school programs. Advertising can generate revenue to maintain these programs. These schools promise that advertisers will be screened and only age-appropriate content will be permitted. Should schools draw the line on this issue, or should they allow advertising to support important programs?

recognition test

A posttest in which respondents are shown the actual ad and are asked if they recognize it

unaided recall test

A posttest in which respondents are asked to identify advertisements they have seen recently but are not given any recall clues

aided recall test

A posttest that asks respondents to identify recent ads and provides clues to jog their memories

In certain large businesses, especially large retail organizations, advertising departments create and implement advertising campaigns. Depending on the size of the advertising program, an advertising department may consist of a few multiskilled individuals or a sizable number of specialists, including copywriters, artists, media buyers, and technical production coordinators. Advertising departments sometimes obtain the services of independent research organizations and hire freelance specialists when a particular project requires it.

Many firms employ an advertising agency to develop advertising campaigns. Kraft Foods, for example, contracted with McGarry Bowen to create an advertising campaign to distinguish its Miracle Whip brand from mayonnaise brands. The campaign was estimated to cost \$15.3 million.²⁴ When an organization uses an advertising agency, the firm and the agency usually develop the advertising campaign jointly. How much each participates in the campaign's total development depends on the working relationship between the firm and the agency. Ordinarily, a firm relies on the agency for copywriting, artwork, technical production, and formulation of the media plan.

Advertising agencies assist businesses in several ways. An agency, especially a large one, can supply the services of highly skilled specialists—not only copywriters, artists, and production coordinators but also media experts, researchers, and legal advisers. Agency personnel often have broad advertising experience and are usually more objective than a firm's employees about the organization's products.

Because an agency traditionally receives most of its compensation from a 15 percent commission paid by the media from which it makes purchases, firms can obtain some agency services

at low or moderate costs. If an agency contracts for \$400,000 of television time for a firm, it receives a commission of \$60,000 from the television station. Although the traditional compensation method for agencies is changing and now includes other factors, media commissions still offset some costs of using an agency. Table 17.5 lists some of the leading U.S. ad agencies. Like advertising, public relations can be a vital element in a promotion mix. We turn to this topic next.

public relations

Communication efforts used to create and maintain favorable relations between an organization and its stakeholders



CARDIAC CARE NETWORK



annual report 2009/2010

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Public Relations

Public relations is a broad set of communication efforts used to create and maintain favorable relationships between an organization and its stakeholders. An organization communicates with various stakeholders, both internal and external, and public relations efforts can be directed toward any and all of them. A firm's stakeholders can include customers, suppliers, employees, shareholders, the media, educators, potential investors, government officials, and society in general. In light of a gas pedal recall in 2010, Toyota engaged in a massive advertising and public relations campaign to help rebuild trust among stakeholders in its products, brand name, and dealers. The company issued press releases, ran television ads to remind stakeholders of the heritage of the brand, and attempted to reassure consumers through company spokespersons. This promotional campaign resulted in an 89 percent awareness of the recall, and around 50 percent of those aware were

Annual Reports

Annual reports, when appropriately designed, can generate favorable public relations.

TABLE 17.5 Leading International Agencies by Revenue

1.	WPP	\$13.6 billion
2.	Omnicom Group	11.72 billion
3.	Publicis Groupe	6.29 billion
4.	Interpublic Group of Cos	6.03 billion
5.	Dentsu	3.11 billion

Source: "Agency Family Trees 2010," *Advertising Age*, <http://adage.com/agencyfamilytrees2010/> (accessed April 29, 2011).

"much less likely" or "somewhat less likely" to buy a Toyota.²⁵ While making stakeholders aware of the recall may have hurt Toyota's sales in the short run, it developed a foundation for open communication and trust in the long run. Table 17.6 lists some of the top public relations campaigns in the past 10 years.

Public relations can be used to promote people, places, ideas, activities, and even countries. It is often used by nonprofit organizations to achieve their goals. Public relations focuses on enhancing the image of the total organization. Assessing public attitudes and creating a favorable image are no less important than direct promotion of the organization's products. Because the public's attitudes toward a firm are likely to affect the sales of its products, it is very important for firms to maintain positive public perceptions. In addition, employee morale is strengthened if the public perceives the firm positively.²⁶ Although public relations can make people aware of a company's products, brands, or activities, it can also create specific company images, such as innovativeness or dependability. Companies like Green Mountain Coffee Roasters, Patagonia, Sustainable Harvest, and Honest Tea have reputations

TABLE 17.6 Top Five Public Relations Campaigns of the Decade

Rank	PR Agency	Client (Company or Nonprofit Organization Paying for the Campaign)	Title of PR Campaign
1	Ogilvy Public Relations	The National Heart, Lung, and Blood Institute	Red Dress Campaign
2	Patrice Tanaka and Company	Liz Claiborne	Women's Work (cause-related marketing campaign)
3	MGA Communications	Shell Oil Company, US Army, and the National Wildlife Agency	Rocky Mountain Arsenal clean-up and wildlife preserve campaign
4	Fleishman-Hillard	Telco Companies	Hurricane Katrina Aid for the Displaced
5	Ketchum	Frito-Lay	User-Generated Commercials—Doritos Crashes the Super Bowl

Source: "Holmes Reports Top 5 Advertising Campaigns of the Decade," www.designtaxi.com/news.php?id=30160 (accessed April 29, 2011).

for being socially responsible not only because they engage in socially responsible behavior, but because their actions are reported through news stories and other public relations efforts. By getting the media to report on a firm's accomplishments, public relations helps the company maintain positive public visibility. Some firms use public relations for a single purpose; others use it for several purposes.

PUBLIC RELATIONS TOOLS

Companies use a variety of public relations tools to convey messages and create images. Public relations professionals prepare written materials and use digital media to deliver brochures, newsletters, company magazines, news releases, blogs, and annual reports that reach and influence their various stakeholders. Sometimes, organizations use less conventional tools in their public relations campaigns. The Texas Motor Speedway, for example, launched a "No Limits" campaign to attract a younger fan base to NASCAR races. One event for the campaign featured video games on giant screens, wood sculptures created from chainsaws, and a performance by "The Great American Sweethearts." The logo for the campaign was modeled after the Affliction clothing line, which is associated with extreme sports. The campaign was meant to convey a "hip" message to its intended audience.²⁷

Public relations personnel also create corporate identity materials—such as logos, business cards, stationery, and signs—that make firms immediately recognizable. Speeches are another public relations tool. Because what a company executive says publicly at meetings or to the media can affect the organization's image, the speech must convey the desired message clearly. Event sponsorship, in which a company pays for part or all of a special event, like a benefit concert or a tennis tournament, is another public relations tool. Examples are Coca-Cola's sponsorship of the FIFA World Cup and Special Olympics. Sponsoring special events can be an effective means of increasing company or brand recognition with relatively minimal investment. Event sponsorship can gain companies considerable amounts of free media coverage. An organization tries to ensure that its product and the sponsored event target a similar audience and that the two are easily associated in customers' minds. Many companies set up foundations to assist in their charitable giving. Bill Daniels, the founder of Cablevision who passed away in 2000, set up a fund supported with more than a billion dollars to provide financial support for many causes, including business ethics. Bill Daniels believed that ethics were integral to business success, especially in the cable industry. The Daniels Fund is actively supporting business ethics education in Colorado, New Mexico, Utah, and Wyoming. Public relations personnel also organize unique events to "create news" about the company. These may include grand openings with celebrities, prizes, hot-air balloon rides, and other attractions that appeal to a firm's public.

Publicity is a part of public relations. **Publicity** is communication in news-story form about the organization, its products, or both, transmitted through a mass medium at no charge. For instance, after former Apple CEO Steve Jobs announced that the company would introduce a revolutionary new mobile device, the iPad 2, the story was covered in newspapers and television news shows throughout the world for months afterward. Although public relations has a larger, more comprehensive communication function than publicity, publicity is a very important aspect of public relations. Publicity can be used to provide information about goods or services; to announce expansions, acquisitions, research, or new-product launches; or to enhance a company's image.

The most common publicity-based public relations tool is the **news release**, sometimes called a *press release*, which is usually a single page of typewritten copy containing fewer than 300 words and describing a company event or product. A news release gives the firm's or agency's name, address, phone number, and contact person. Companies sometimes use news

publicity

A news-story type of communication about an organization and/or its products transmitted through a mass medium at no charge

news release

A short piece of copy publicizing an event or a product

TABLE 17.7 Possible Issues for Publicity Releases

Changes in personnel	Packaging changes
Support of a social cause	New products
Improved warranties	New slogan
Reports on industry conditions	Research developments
New uses for established products	Company's history and development
Product endorsements	Employment, production, and sales records
Quality awards	Award of contracts
Company name changes	Opening of new markets
Interviews with company officials	Improvements in financial position
Improved distribution policies	Opening of an exhibit
International business efforts	History of a brand
Athletic event sponsorship	Winners of company contests
Visits by celebrities	Logo changes
Reports on new discoveries	Speeches of top management
Innovative business practices	Merit awards
Economic forecasts	Anniversary of inventions

releases when introducing new products or making significant announcements. Dozens of organizations, including Nike, Starbucks, and clean energy companies, are partnering to create awareness of the economic benefits of national climate and energy legislation. According to the alliance, up to 1.7 million new jobs could be created nationally, while GDP could be boosted by \$39 to \$111 billion.²⁸ As Table 17.7 shows, news releases tackle a multitude of specific issues. A **feature article** is a manuscript of up to 3,000 words prepared for a specific publication. A **captioned photograph** is a photograph with a brief description explaining its contents. Captioned photographs are effective for illustrating new or improved products with highly visible features.

There are several other kinds of publicity-based public relations tools. For example, a **press conference** is a meeting called to announce major news events. Media personnel are invited to a press conference and are usually supplied with written materials and photographs. Letters to the editor and editorials are sometimes prepared and sent to newspapers and magazines. Videos and audiotapes may be distributed to broadcast stations in the hope that they will be aired.

Publicity-based public relations tools offer several advantages, including credibility, news value, significant word-of-mouth communications, and a perception of media endorsement. The public may consider news coverage more truthful and credible than an advertisement because the media are not paid to provide the information. In addition, stories regarding a new-product introduction or a new environmentally responsible company policy, for example, are handled as news items and are likely to receive notice. Finally, the cost of publicity is low compared with the cost of advertising.²⁹

feature article

A manuscript of up to 3,000 words prepared for a specific publication

captioned photograph

A photograph with a brief description of its contents

press conference

A meeting used to announce major news events

Publicity-based public relations tools have some limitations. Media personnel must judge company messages to be newsworthy if the messages are to be published or broadcast at all. Consequently, messages must be timely, interesting, accurate, and in the public interest. It may take a great deal of time and effort to convince media personnel of the news value of publicity releases, and many communications fail to qualify. Although public relations personnel usually encourage the media to air publicity releases at certain times, they control neither the content nor the timing of the communication. Media personnel alter length and content of publicity releases to fit publishers' or broadcasters' requirements and may even delete the parts of messages that company personnel view as most important. Furthermore, media personnel use publicity releases in time slots or positions most convenient for them. Thus, messages sometimes appear in locations or at times that may not reach the firm's target audiences. Although these limitations can be frustrating, properly managed publicity-based public relations tools offer an organization substantial benefits.

EVALUATING PUBLIC RELATIONS EFFECTIVENESS

Because of the potential benefits of good public relations, it is essential that organizations evaluate the effectiveness of their public relations campaigns. Research can be conducted to determine how well a firm is communicating its messages or image to its target audiences. *Environmental monitoring* identifies changes in public opinion affecting an organization. A *public relations audit* is used to assess an organization's image among the public or to evaluate the effect of a specific public relations program. A *communications audit* may include a content analysis of messages, a readability study, or a readership survey. If an organization wants to measure the extent to which stakeholders view it as being socially responsible, it can conduct a *social audit*.

One approach to measuring the effectiveness of publicity-based public relations is to count the number of exposures in the media. To determine which releases are published in print media and how often, an organization can hire a clipping service, a firm that clips and sends news releases to client companies. To measure the effectiveness of television coverage, a firm can enclose a card with its publicity releases requesting that the television station record its name and the dates when the news item is broadcast (although station personnel do not always comply). Some television and radio tracking services exist, but they are quite costly.

Counting the number of media exposures does not reveal how many people have actually read or heard the company's message or what they thought about the message afterward. However, measuring changes in product awareness, knowledge, and attitudes resulting from the publicity campaign helps yield this information. To assess these changes, companies must measure these levels before and after public relations campaigns. Although precise measures are difficult to obtain, a firm's marketers should attempt to assess the impact of public relations efforts on the organization's sales. For example, critics' reviews of films can affect the films' box office performance. Interestingly, negative reviews (publicity) harm revenue more than positive reviews help revenue in the early weeks of a film's release.³⁰

DEALING WITH UNFAVORABLE PUBLIC RELATIONS

Thus far, we have discussed public relations as a planned element of the promotion mix. However, companies may have to deal with unexpected and unfavorable publicity resulting from an unsafe product, an accident resulting from product use, controversial

Green Marketing



FTC Passes Guidelines to Discourage Greenwashing

Advertisers will have to think twice when making green product claims, thanks to updated Green Guides released by the Federal Trade Commission (FTC). These Green Guides are meant to prevent *greenwashing*, which occurs when marketers mislead a consumer into thinking that a product or service is more environmentally friendly than it is. As green products become more popular, businesses are finding it profitable to advertise their products as eco-friendly—whether they are or not. Unfortunately, it has been hard to identify greenwashing due to a lack of clear guidelines on what constitutes “green.”

This convinced the FTC to create revised Green Guides to define the requirements needed for advertisers to make certain green claims about products (such as “biodegradable”). Although these guidelines are not enforceable as law, violating them could prompt the FTC to take disciplinary action against advertisers if their claims are proven to be deceptive. The hope is that these new green guides will serve to curb greenwashing and provide clearer “green” guidelines for businesses and consumers.^d

actions of employees, or some other negative event or situation. For example, an airline that experiences a plane crash faces a very tragic and distressing situation. Charges of anticompetitive behavior against Microsoft have raised public concern and generated unfavorable public relations for that organization. The public’s image of BP as a socially responsible company diminished considerably after the Gulf Coast disaster. Many companies have experienced unfavorable publicity connected to contamination issues, such as salmonella in peanut butter, lead in toys, and industrial compounds in pet foods. Unfavorable coverage can have quick and dramatic effects. The global financial crisis has caused a trust breach for many companies, perhaps the greatest damage in the financial services industry. Goldman Sachs has been accused of providing very large bonuses at a time of financial uncertainty, generating significant negative publicity. A new risk area noted in Goldman Sachs’ annual report was “negative publicity,” along with economic conditions, market volatility, and uncertainty regarding regulation.³¹ Table 17.8 provides examples of public relations “gaffes” committed by major companies. Negative events that generate public relations can wipe out a company’s favorable image and destroy positive customer attitudes established through years of expensive advertising campaigns and other promotional efforts. Reputation is often considered a valuable company asset. How an organization deals with unfavorable actions and outcomes can have a significant impact on firm valuation. Moreover, today’s mass media, including online services and the Internet, disseminate information faster than ever before, and bad news generally receives more media attention than corporate social responsibility.

To protect its image, an organization needs to prevent unfavorable public relations or at least lessen its effect if it occurs. First and foremost, the organization should try to prevent negative incidents and events through safety programs, inspections, training, and effective quality control procedures. Experts insist that sending consistent brand messages and images throughout all communications at all times can help a brand maintain its strength even

TABLE 17.8 How Not to Handle a Crisis

Crisis	Public Relations Blunders
Deepwater Horizon disaster	Comments like CEO Tony Hayward's "I want my life back" made BP appear insensitive to the crisis.
iPhone 4 reception problems	Apple appeared to initially minimize the problems.
Facebook user privacy	Facebook is accused of being proactive rather than reactive regarding users' privacy.
Large-scale over-the-counter medicine recalls	Johnson & Johnson was charged with acting too slowly in recalling tainted products.

Source: Suzanne Vranica, "Public Relations Learned the Hard Way," *The Wall Street Journal*, December 30, 2010, p. B6.

during a crisis.³² However, because negative events can strike even the most cautious firms, an organization should have plans in place to handle them when they do occur. Firms need to establish policies and procedures for reducing the adverse impact of news coverage of a crisis or controversy. In most cases, organizations should expedite news coverage of negative events rather than try to discourage or block them. If news coverage is suppressed, rumors and other misinformation may replace facts.

An unfavorable event can easily balloon into serious problems or public issues and become very damaging. By being forthright with the press and public and taking prompt action, a firm may be able to convince the public of its honest attempts to deal with the situation, and news personnel may be more willing to help explain complex issues to the public. Dealing effectively with a negative event allows an organization to lessen, if not eliminate, the unfavorable impact on its image. Consider that after news reports emerged about JetBlue leaving passengers stranded on runways for hours, the company offered the passengers full refunds and vouchers for free flights in the future. It also ran apologetic ads and issued press releases to communicate with affected stakeholders. JetBlue founder and CEO David Neeleman, who said he was "humiliated and mortified" by the incident, immediately implemented plans to add and train staff to remedy communications and operations issues that contributed to the crisis. He also pledged to enact a customer bill of rights that would penalize the airline and reward passengers should such a fiasco happen again.³³ Experts generally advise companies that are dealing with negative publicity to respond quickly and honestly to the situation and to keep the lines of communication with all stakeholders open. Digital media has enhanced the organizational ability to communicate with key stakeholders and develop dialogues on current issues.

CHAPTER REVIEW

1 Describe the nature and types of advertising.

Advertising is a paid form of nonpersonal communication transmitted to consumers through mass media, such as television, radio, the Internet, newspapers, magazines, direct mail, outdoor displays, and signs on mass transit vehicles. Both business and nonbusiness organizations use advertising. Institutional advertising promotes organizational images, ideas, and political issues. When a company promotes its position on a public issue like taxation, institutional advertising is referred to as advocacy advertising. Product advertising promotes uses, features, and benefits of products. The two types of product advertising are pioneer advertising, which focuses on stimulating demand for a product category rather than a specific brand, and competitive advertising, which attempts to stimulate demand for a specific brand by indicating the brand's features, uses, and advantages. To make direct product comparisons, marketers use comparative advertising, which compares two or more brands. Two other forms of competitive advertising are reminder advertising, which reminds customers about an established brand's uses, characteristics, and benefits, and reinforcement advertising, which assures current users they have made the right brand choice.

2 Explore the major steps in developing an advertising campaign.

Although marketers may vary in how they develop advertising campaigns, they should follow a general pattern. First, they must identify and analyze the target audience, the group of people at whom advertisements are aimed. Second, they should establish what they want the campaign to accomplish by defining advertising objectives. Objectives should be clear, precise, and presented in measurable terms. Third, marketers must create the advertising platform, which contains basic issues to be presented in the campaign. Advertising platforms should consist of issues important to consumers. Fourth, advertisers must decide how much money to spend on the campaign; they arrive at this decision through the objective-and-task approach, percent-of-sales approach, competition-matching approach, or arbitrary approach.

Advertisers must then develop a media plan by selecting and scheduling media to use in the campaign. Some factors affecting the media plan are location and demographic characteristics of the target audience, content of the message, and cost of the various media. The basic content and form of the advertising message are affected by product features, uses, and benefits; characteristics of the people in the target audience; the campaign's objectives and platform; and the choice of media. Advertisers use copy and artwork to create the message. The execution of an advertising campaign requires extensive planning and coordination.

Finally, advertisers must devise one or more methods for evaluating advertisement effectiveness. Pretests are evaluations performed before the campaign begins; posttests are conducted after the campaign. Two types of posttests are a recognition test, in which respondents are shown the actual advertisement and asked whether they recognize it, and a recall test. In aided recall tests, respondents are shown a list of products, brands, company names, or trademarks to jog their memories. In unaided tests, no clues are given.

3 Identify who is responsible for developing advertising campaigns.

Advertising campaigns can be developed by personnel within the firm or in conjunction with advertising agencies. A campaign created by the firm's personnel may be developed by one or more individuals or by an advertising department within the firm. Use of an advertising agency may be advantageous because an agency provides highly skilled, objective specialists with broad experience in advertising at low to moderate costs to the firm.

4 Examine the tools used in public relations.

Public relations is a broad set of communication efforts used to create and maintain favorable relationships between an organization and its stakeholders. Public relations can be used to promote people, places, ideas, activities, and countries, and to create and maintain a positive company image. Some firms use public relations for a single purpose; others use it for several purposes. Public

relations tools include written materials, such as brochures, newsletters, and annual reports; corporate identity materials, like business cards and signs; speeches; event sponsorships; and special events. Publicity is communication in news-story form about an organization, its products, or both, transmitted through a mass medium at no charge. Publicity-based public relations tools consist of news releases, feature articles, captioned photographs, and press conferences. Problems that organizations confront in using publicity-based public relations include reluctance of media personnel to print or air releases and lack of control over timing and content of messages.

5 Analyze how public relations is used and evaluated.

To evaluate the effectiveness of their public relations programs, companies conduct research to determine how well their messages are reaching their audiences. Environmental monitoring, public relations audits, and counting the number of media exposures are all means of evaluating public relations effectiveness. Organizations should avoid negative public relations by taking steps to prevent negative events that result in unfavorable publicity. To diminish the impact of unfavorable public relations, organizations should institute policies and procedures for dealing with news personnel and the public when negative events occur.

ONLINE RESOURCES

Please visit the student website at www.mcgraw-hill.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

KEY CONCEPTS

- | | | |
|-------------------------------|-----------------------------------|--------------------------|
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ISSUES FOR DISCUSSION AND REVIEW

1. What is the difference between institutional and product advertising?
2. What is the difference between competitive advertising and comparative advertising?
3. What are the major steps in creating an advertising campaign?
4. What is a target audience? How does a marketer analyze the target audience after identifying it?
5. Why is it necessary to define advertising objectives?
6. What is an advertising platform, and how is it used?
7. What factors affect the size of an advertising budget? What techniques are used to determine an advertising budget?
8. Describe the steps in developing a media plan.
9. What is the function of copy in an advertising message?
10. Discuss several ways to posttest the effectiveness of advertising.
11. What role does an advertising agency play in developing an advertising campaign?
12. What is public relations? Who can an organization reach through public relations?
13. How do organizations use public relations tools? Give several examples you have observed recently.
14. Explain the problems and limitations associated with publicity-based public relations.
15. In what ways is the effectiveness of public relations evaluated?
16. What are some sources of negative public relations? How should an organization deal with unfavorable public relations?

MARKETING APPLICATIONS

1. An organization must define its objectives carefully when developing an advertising campaign. Which of the following advertising objectives would be most useful for a company, and why?
 - a. The organization will spend \$1 million to move from second in market share to market leader.
 - b. The organization wants to increase sales from \$1.2 million to \$1.5 million this year to gain the lead in market share.
 - c. The advertising objective is to gain as much market share as possible within the next 12 months.
 - d. The advertising objective is to increase sales by 15 percent.
2. Copy, the verbal portion of advertising, is used to move readers through a persuasive sequence called AIDA: attention, interest, desire, and action. To achieve this, some copywriters have adopted guidelines for developing advertising copy. Select a print ad and identify how it (a) identifies a specific problem, (b) recommends the product as the best solution to the problem, (c) states the product's advantages and benefits, (d) substantiates the ad's claims, and (e) asks the reader to take action.
3. Advertisers use several types of publicity mechanisms. Look through some recent newspapers and magazines or use an Internet search engine, and

identify a news release, a feature article, or a captioned photograph used to publicize a product. Describe the type of product.

4. Negative public relations can harm an organization's marketing efforts if not dealt with properly. Identify a company that was recently the target of negative public relations. Describe the situation and discuss the company's response. What did marketers at this company do well? What, if anything, would you recommend that they change about their response?

ONLINE EXERCISE

5. LEGO Company has been making toys since 1932 and has become one of the most recognized brand names in the toy industry. With the company motto "Only the best is good enough," it is no surprise that LEGO has developed an exciting and interactive website. See how the company promotes LEGO products and encourages consumer involvement with the brand by visiting www.lego.com.
 - a. Which type of advertising is LEGO using on its website?
 - b. What target audience is LEGO attempting to reach through its website?
 - c. Identify the advertising objectives LEGO is attempting to achieve through its website.

DEVELOPING YOUR MARKETING PLAN

Determining the message that advertising is to communicate to the customer is an important part of developing a marketing strategy. A sound understanding of the various types of advertising and different forms of media is essential in selecting the appropriate methods for communicating the message. These decisions form a critical segment of the marketing plan. To assist you in relating the information in this chapter to the development of your marketing plan, consider the following issues:

1. What class and type of advertising would be most appropriate for your product?
2. Discuss the different methods for determining the advertising appropriation.
3. Using Table 17.3 as a guide, evaluate the different types of media and determine which would be most effective in meeting your promotional objectives (from Chapter 16).
4. What methods would you use to evaluate the effectiveness of your advertising campaign?
5. Review Table 17.7, and discuss possible uses for publicity in your promotional plan.

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

VANS LEVERAGES ATHLETES IN ITS ADVERTISING PLATFORM

For most people, surfing and skateboarding come to mind immediately when they think of southern California culture. For 40 years, Vans has embodied the California lifestyle and remains one of the preeminent skater-shoe companies. Founded in Los Angeles in 1966 by Paul Van Doren, his brother Steve, and Belgian investor Serge D'Elia, Vans quickly became a staple in southern California. Starting with a few versions of the traditional lace-up deck shoe sold out of a factory, the style of shoe became popular almost immediately. Vans rapidly increased its level of popularity by customizing shoes in all different fabrics and designs. The Van Dorens secured their local customized shoe business by selling plaid shoes to Catholic schools and sneakers with school colors to high school athletes. But when the checkered slip-on was donned by Sean Penn and his surfer buddies in the film *Fast Times at Ridgemont High*, skaters all over the country were demanding their own pairs of Vans. The shoes went from local wear to an iconic symbol in just a few years.

Contrary to many corporate success stories, the Vans company never spent much money on advertising. Paul Van Doren knew that he offered a superior product, and he relied on word of mouth to popularize the high-quality, extremely durable shoes. The most marketing Van Doren did at first was to have his children canvas their neighborhood with flyers. At all early Vans stores, signs encouraged customers to "tell a friend about Vans." For years, Van Doren focused mostly on the manufacturing aspect of the company so that even with a minimal amount of advertising, popularity grew because Vans were, quite simply, quality shoes. It wasn't until the late 1980s and early 1990s, when manufacturing was taken overseas, that Vans turned its attention to marketing.

One of Vans's earliest forays into promotion came about by chance. As skateboarders began to discover Vans shoes, the company responded by creating styles more amenable to skating. With their skater following growing, Vans paid a few top skaters a few hundred dollars apiece to wear its shoes at skating

events. In 1989, Vans produced its first signature skateboarding shoe, the Steve Caballero shoe. Since then, Vans has partnered with numerous athletes such as Geoff Rowley, who has the best-selling signature Vans shoe to date, and Johnny Layton. As skateboarding culture has continued to flourish over the decades, Vans's connection to the scene has remained strong.

Vans's two-man marketing and promotional team focuses on spreading interest in Vans by doing its best to remain plugged into the youth culture and by fueling teenage interest in Vans products. To this end, the company advertises through print, online, TV, and sporting and music events. Currently, the key to Vans's marketing strategy is developing advertising partnerships with athletes, artists, and media outlets. People immersed in this culture want to own Vans products. Vans is not just a shoe; it is a lifestyle.

Young extreme-sports athletes, like skaters and surfers, remain Vans' most important customer base. In 1995, Vans hosted its first Triple Crown event. The Triple Crown spotlights skateboarding, surfing, snowboarding, BMX, FMX, and wakeboarding. Tony Hawk won the skateboarding competition that first year and has since become a household name. Also in 1995, Vans launched its first annual Warped Tour, blending skating with music

through concerts and competitions. These types of events allow Vans to build brand recognition, cement its integral place in the skating lifestyle, and connect with customers via giveaways and promotions such as designing custom shoes.

In addition to events, Vans connects with its audience through magazine advertisements, television, and the Internet, especially to attract young female consumers, who represent a growing part of the Vans consumer base. In the past, the company has partnered with magazines such as *Teen Vogue* and *CosmoGirl* to reach the female demographic. Vans also collaborates with musicians, artists, and designers to increase brand awareness through sponsorships, music tours, and videos. Additionally, Vans promotes itself through mobile apps that its fans can download in order to access Vans-related news. Although it is more than 40 years old, Vans still connects with youth culture as well as ever—and shows no signs of slowing down.³⁴

QUESTIONS FOR DISCUSSION

1. Evaluate Vans's early word-of-mouth marketing strategy.
2. Why were the early Vans advertising activities related to skateboard shoes so successful?
3. How does Vans continue to capture its target market?

CHAPTER 18

Personal Selling and Sales Promotion

OBJECTIVES:

- 1 Understand the major purposes of personal selling.
- 2 Describe the basic steps in the personal selling process.
- 3 Identify the types of sales force personnel.
- 4 Recognize new types of personal selling.
- 5 Understand sales management decisions and activities.
- 6 Explain what sales promotion activities are and how they are used.
- 7 Explore specific consumer sales promotion methods.
- 8 Explore trade sales promotion methods.



salesforce



MARKETING INSIGHTS

Salesforce.com Makes Its Mark in Social Responsibility

Salesforce.com truly believes in sharing the wealth. Salesforce.com is a cloud computing organization that provides software—such as customer relationship management applications—to a variety of clients including Dell, Qualcomm, NBCUniversal, and Symantec. The various applications in the Salesforce.com platform bring people and data together to provide information the sales force needs to be successful. Additionally, Salesforce.com has been making news in another area: social responsibility.

Salesforce.com secured the number one spot in *Fortune's* ranking of the 25 top-paying companies. Believing that employees are largely responsible for making Salesforce.com what it is today, Salesforce.com provides large bonuses to its top performers, pays for "incentive trips" to Hawaii, and allows some of its employees to own stock in the company. The average total pay at Salesforce.com exceeds \$300,000.

Salesforce.com was also named as one of the world's "Most Ethical Companies" by *Ethisphere* for the fourth consecutive year. Much of this has to do with Salesforce.com's 1/1/1 Model, which stands for 1 percent time (in which employees are given 1 percent time to volunteer), 1 percent equity (in which 1 percent of its capital is given to the Salesforce.com Foundation), and 1 percent product. As a result of this program, Salesforce.com has donated more than 240,000 employee-hours to community causes, has donated or discounted licenses for its software to more than 10,000 organizations (many of them nonprofits), and has awarded more than \$21 million in grants. By integrating corporate social responsibility into the company culture, Salesforce.com hopes to make a positive difference in communities and nonprofit organizations.¹

For many organizations, targeting customers with appropriate personal selling techniques and messages can play a major role in maintaining long-term, satisfying customer relationships, which in turn contribute to company success. Marketing strategy development should involve the sales organization during all stages of development and implementation. Top managers need extensive feedback from the sales force. Managers should strive to make information transparent and should jointly analyze sales data. Sales managers should communicate marketing strategy in a language with which salespeople feel comfortable.² As we saw in Chapter 16, personal selling and sales promotion are two possible elements in a promotion mix. Personal selling is sometimes a company's sole promotional tool, and it is becoming increasingly professional and sophisticated, with sales personnel acting more as consultants, advisers, and sometimes as partners.

In this chapter, we focus on personal selling and sales promotion. We first consider the purposes of personal selling and then examine its basic steps. Next, we look at types of salespeople and how they are selected. After taking a look at several new types of personal selling, we discuss major sales force management decisions, including setting objectives for the sales force and determining its size; recruiting, selecting, training, compensating, and motivating salespeople; managing sales territories; and controlling and evaluating sales force performance. Then we examine several characteristics of sales promotion, reasons for using sales promotion, and sales promotion methods available for use in a promotion mix.

personal selling

Paid personal communication that attempts to inform customers and persuade them to buy products in an exchange situation

The Nature of Personal Selling

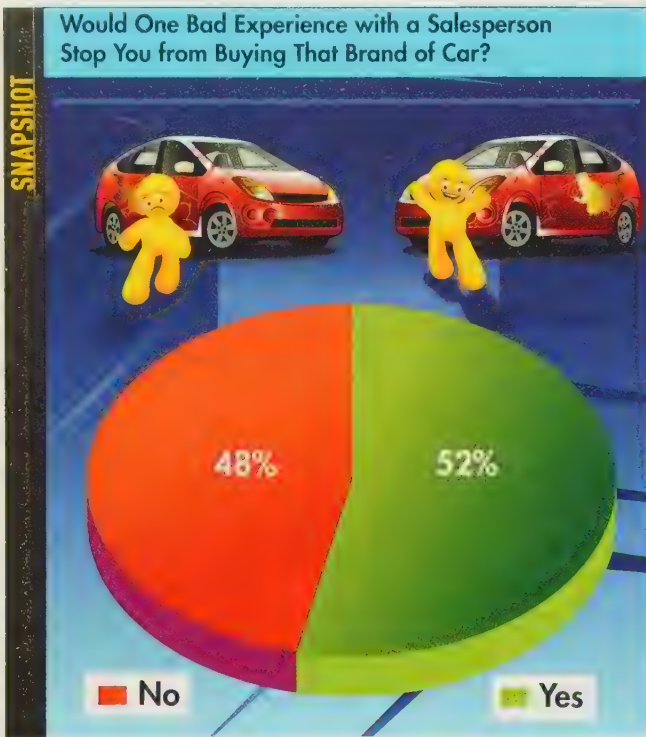
Personal selling is paid personal communication that attempts to inform customers and persuade them to purchase products in an exchange situation. For example, a Hewlett-Packard (HP) salesperson describing the benefits of the company's servers, PCs, and printers to a small-business customer is engaging in personal selling. Likewise, a volunteer manning a petition-signing booth for a social or political cause uses personal selling to inform passersby about the issues and to persuade them to change their views or become involved. Personal selling gives marketers the greatest freedom to adjust a message to satisfy customers' information needs. It is the most precise of all promotion methods, enabling marketers to focus on the most promising sales prospects. Other promotion mix elements are aimed at groups of people, some of whom may not be prospective customers. However, personal selling is generally the most expensive element in the promotion mix. The average cost of a sales call is more than \$400.³

Millions of people, including increasing numbers of women, earn their living through personal selling. Sales careers can offer high income, a great deal of freedom, a high level of training, and a high degree of job satisfaction. Although the public may harbor negative perceptions of personal selling, unfavorable stereotypes of salespeople are changing thanks to the efforts of major corporations, professional sales associations, and academic institutions. Researchers have found that personal selling will continue to gain respect as professional sales associations develop and enforce ethical codes of conduct.⁴ Developing



Personal Selling

Marketing high-end appliances to individuals involves personal selling.



Base: 1,506 adults 19 to 31 years old

Source: Deloitte, "Third Annual Deloitte Automotive Generation Y Survey," www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_automotive_2011%20Deloitte%20Automotive%20Gen%20Y%20Survey%20FACT%20SHEET_012011.pdf (accessed August 5, 2011).

ongoing customer relationships today requires sales personnel with high levels of professionalism as well as technical and interpersonal skills.⁵

Personal selling goals vary from one firm to another. However, they usually involve finding prospects, determining their needs, persuading prospects to buy, following up on the sale, and keeping customers satisfied. Identifying potential buyers interested in the organization's products is critical. Because most potential buyers seek information before making purchases, salespeople can ascertain prospects' informational needs and then provide relevant information. To do so, sales personnel must be well trained regarding both their products and the selling process in general.

Salespeople must be aware of their competitors. They must monitor the development of new products and keep abreast of competitors' sales efforts in their sales territories, how often and when the competition calls on their accounts, and what the competition is saying about their product in relation to its own. Salespeople must emphasize the benefits their products provide, especially when competitors' products do not offer those specific benefits.

To be successful, personal selling needs to utilize information technology that can enhance communication

with customers. Using websites to manage orders and product information, track inventory, and train salespeople can save companies time and money. Twitter is a relatively new tool that can be used to post product information and updates, obtain prospects, recruit new salespeople, and communicate with salespeople. Facebook is another valuable tool that can supplement and support face-to-face contacts. On Facebook, salespeople can carry on conversations very similar to traditional face-to-face social networks. Mobile technology and applications provide salespeople with opportunities to offer service and connect with customers. Customer relationship management (CRM) technology enables improved service, marketing and sales processes, and contact and data management and analysis. CRM can help facilitate the delivery of valuable customer experiences and provide the metrics to measure progress and sales successes.⁶

Few businesses survive solely on profits from one-time customers. For long-run survival, most marketers depend on repeat sales and thus need to keep their customers satisfied. In addition, satisfied customers provide favorable word of mouth and other communications, thereby attracting new customers. Although the whole organization is responsible for achieving customer satisfaction, much of the burden falls on salespeople because they are almost always closer to customers than anyone else in the company and often provide buyers with information and service after the sale. Indeed, research shows that a firm's market orientation has a positive influence on salespeople's attitudes, commitment, and influence on customer purchasing intentions.⁷ Such contact gives salespeople an opportunity to generate additional sales and offers them a good vantage point for evaluating the strengths and weaknesses of the company's products and other marketing mix components. Their observations help develop and maintain a marketing mix that better satisfies both the firm and its customers. Sales is no longer an isolated function in a global business world. The sales function is becoming part of a cross-functional strategic solution to customer management. This requires salespersons with both managerial and strategic skills.⁸

Elements of the Personal Selling Process

The specific activities involved in the selling process vary among salespeople, selling situations, and cultures. No two salespeople use exactly the same selling methods. Nonetheless, many salespeople move through a general selling process. This process consists of seven steps, outlined in Figure 18.1: prospecting, preapproach, approach, making the presentation, overcoming objections, closing the sale, and following up.

PROSPECTING

Developing a database of potential customers is called **prospecting**. Salespeople seek names of prospects from company sales records, trade shows, commercial databases, newspaper announcements (of marriages, births, deaths, and so on), public records, telephone directories, trade association directories, and many other sources. Sales personnel also use responses to traditional and online advertisements that encourage interested persons to send in information request forms. Seminars and meetings targeted at particular types of clients, such as attorneys or accountants, may also produce leads.

Most salespeople prefer to use referrals—recommendations from current customers—to find prospects. For example, salespeople for Cutco Cutlery, which sells high-quality knives and kitchen cutlery, first make sales calls to their friends and families and then use referrals from them to seek out new prospects. Obtaining referrals requires that the salesperson have a good relationship with the current customer and therefore must have performed well before asking the customer for help. As might be expected, a customer's trust in and satisfaction with a salesperson influences his or her willingness to provide referrals. Research shows that one referral is as valuable as 12 cold calls.⁹ Also, 80 percent of clients are willing to give referrals, but only 20 percent are ever asked. Among the advantages of using referrals are more highly qualified sales leads, greater sales rates, and larger initial transactions. Some companies even award discounts off future purchases to customers who refer new prospects to their salespeople. Consistent activity is critical to successful prospecting. Salespeople must actively search the customer base for qualified prospects that fit the target market profile. After developing the prospect list, a salesperson evaluates whether each prospect is able, willing, and authorized to buy the product. Based on this evaluation, prospects are ranked according to desirability or potential.

PREAPPROACH

Before contacting acceptable prospects, a salesperson finds and analyzes information about each prospect's specific product needs, current use of brands, feelings about available brands, and personal characteristics. In short, salespeople need to know what potential buyers and decision makers consider most important and why they need a specific product. The most successful salespeople are thorough in their *preapproach*, which involves identifying key decision makers, reviewing account histories and problems, contacting other clients for



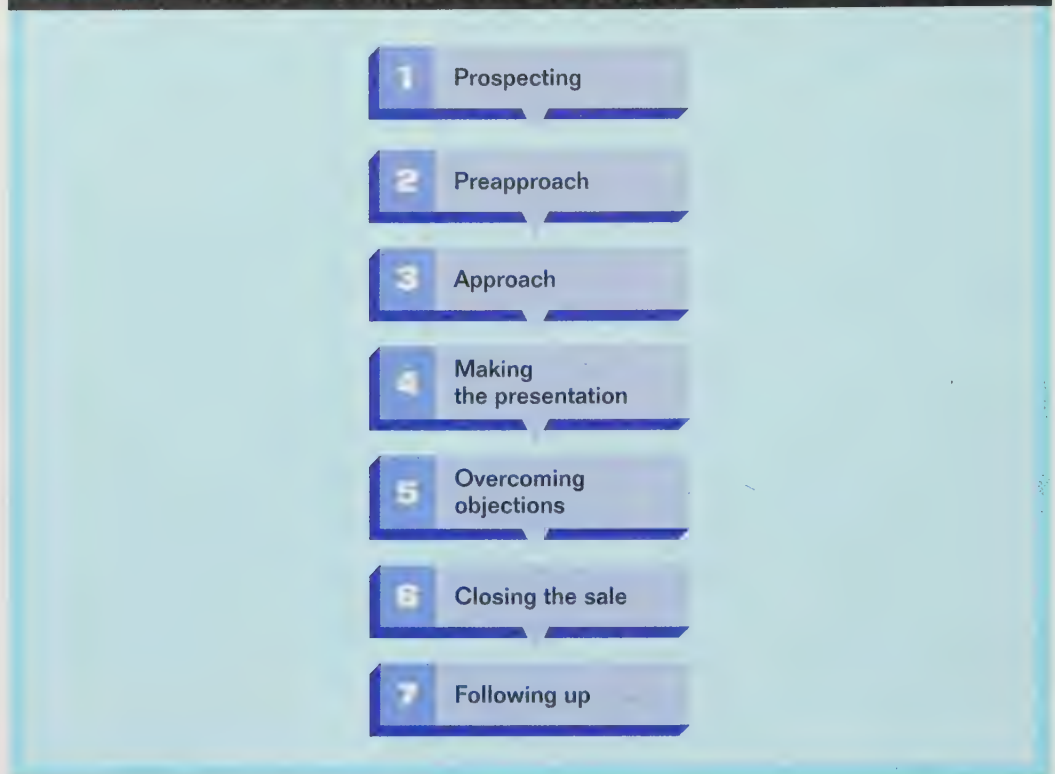
Entrepreneurship in Marketing

Herbalife Gains Success through Direct Selling

When Mark Hughes started selling personal-care and dietary products out of his truck, he had no idea that 30 years later his company would have a presence in 74 countries. Today, Herbalife products such as protein shakes, hair products, and dietary supplements are sold by 2.1 million independent distributors. Independent distributors are not employees; rather, they run their own Herbalife businesses in an entrepreneurial fashion. Distributors are passionate about the products (most begin as consumers), and Herbalife tries to incorporate its distributors into its strategic process. The business encourages distributors to aid in decision-making and has two distributors on its board. It also offers a generous compensation plan and bonus awards that can reach into the millions. As the company moves into what it dubs The Herbalife Decade, it is shifting gears to help distributors via traditional advertising and athletic sponsorships. By encouraging passionate, knowledgeable distributors, Herbalife has been able to gain widespread success in several new markets.^a

prospecting

Developing a database of potential customers

FIGURE 18.1 General Steps in the Personal Selling Process

information, assessing credit histories and problems, preparing sales presentations, identifying product needs, and obtaining relevant literature. Marketers are increasingly using information technology and customer relationship management systems to comb through databases and thus identify their most profitable products and customers. CRM systems can also help sales departments manage leads, track customers, forecast sales, and assess performance. A salesperson with a lot of information about a prospect is better equipped to develop a presentation that precisely communicates with that prospect.

APPROACH

The **approach**—the manner in which a salesperson contacts a potential customer—is a critical step in the sales process. In more than 80 percent of initial sales calls, the purpose is to gather information about the buyer's needs and objectives. Creating a favorable impression and building rapport with prospective clients are important tasks in the approach because the prospect's first impressions of the salesperson are usually lasting ones. During the initial visit, the salesperson strives to develop a relationship rather than just push a product. Indeed, coming across as a "salesperson" may not be the best approach because some people are put off by strong selling tactics. The salesperson may have to call on a prospect several times before the product is considered. The approach must be designed to deliver value to targeted customers. If the sales approach is inappropriate, the salesperson's efforts are likely to have poor results.

One type of approach is based on referrals, as discussed in the section on prospecting. The salesperson who uses the "cold canvass" approach calls on potential customers without prior consent. Repeat contact is another common approach: when making the contact, the salesperson mentions a previous meeting. The exact type of approach depends on the salesperson's preferences, the product being sold, the firm's resources, and the prospect's characteristics.

approach

The manner in which a salesperson contacts a potential customer

MAKING THE PRESENTATION

During the sales presentation, the salesperson must attract and hold the prospect's attention, stimulate interest, and spark a desire for the product. Researchers have found that salespeople who carefully monitor the selling situation and adapt their presentations to meet the needs of prospects are associated with effective sales performance.¹⁰ Salespeople should match their influencing tactics—such as information exchange, recommendations, threats, promises, ingratiation, and inspirational appeals—to their prospects. Different types of buyers respond to different tactics, but most respond well to information exchange and recommendations, and virtually no prospects respond to threats.¹¹ The salesperson should have the prospect touch, hold, or use the product. If possible, the salesperson should demonstrate the product or invite the prospect to use it. Automobile salespeople, for example, typically invite potential buyers to test-drive the vehicle that interests them. Audiovisual equipment and software may also enhance the presentation.

During the presentation, the salesperson must not only talk, but also listen. Nonverbal modes of communication are especially beneficial in building trust during the presentation.¹² The sales presentation gives the salesperson the greatest opportunity to determine the prospect's specific needs by listening to questions and comments and observing responses. Even though the salesperson plans the presentation in advance, she or he must be able to adjust the message to meet the prospect's informational needs. Research demonstrates that adapting the message in response to the customer's needs generally enhances performance, particularly in new-task or modified rebuy purchase situations.¹³

OVERCOMING OBJECTIONS

An effective salesperson usually seeks out a prospect's objections in order to address them. If they are not apparent, the salesperson cannot deal with them, and the prospect may not buy. One of the best ways to overcome objections is to anticipate and counter them before the prospect raises them. However, this approach can be risky because the salesperson may mention objections that the prospect would not have raised. If possible, the salesperson should handle objections as they arise. They can also be addressed at the end of the presentation.

CLOSING THE SALE

Closing is the stage in the personal selling process when the salesperson asks the prospect to buy the product. During the presentation, the salesperson may use a *trial close* by asking questions that assume the prospect will buy. The salesperson might ask the potential customer about financial terms, desired colors or sizes, or delivery arrangements. Reactions to such questions usually indicate how close the prospect is to buying. Properly asked questions may allow prospects to uncover their own problems and identify solutions themselves. One questioning approach uses broad questions (*what, how, why*) to probe or gather information and focused questions (*who, when, where*) to clarify and close the sale. A trial close allows prospects to indicate indirectly that they will buy the product without having to say those sometimes difficult words: "I'll take it."

closing

The stage in the personal selling process when the salesperson asks the prospect to buy the product

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Making the Presentation

Business-to-business salespeople make customized presentations to potential customers.



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A salesperson should try to close at several points during the presentation because the prospect may be ready to buy. An attempt to close the sale may result in objections. Thus, closing can uncover hidden objections, which the salesperson can then address. One closing strategy involves asking the potential customer to place a low-risk, trial order.

FOLLOWING UP

After a successful closing, the salesperson must follow up the sale. In the follow-up stage, the salesperson determines whether the order was delivered on time and installed properly, if installation was required. He or she should contact the customer to learn if any problems or questions regarding the product have arisen. The follow-up stage is also used to determine customers' future product needs.

Following up also aids the salesperson in creating a solid relationship with the customer. New salespeople might find it difficult to understand the reasons for following up on a sale if the customer seems satisfied with the product. However, research has shown that a large number of customers who stop buying products do so not out of dissatisfaction, but because the company neglected to contact them.¹⁴ The follow-up stage is thus vital to establishing a strong relationship and creating loyalty on the part of the buyer.

Types of Salespeople

To develop a sales force, a marketing manager decides what kind of salesperson will sell the firm's products most effectively. Most business organizations use several different kinds of sales personnel. Based on the functions performed, salespeople can be classified into three

groups: order getters, order takers, and support personnel. One salesperson can, and often does, perform all three functions.

ORDER GETTERS

To obtain orders, salespeople inform prospects and persuade them to buy the product. The responsibility of **order getters** is to increase sales by selling to new customers and increasing sales to present customers. This task is sometimes called *creative selling*. It requires that salespeople recognize potential buyers' needs and give them necessary information. Order getting is frequently divided into two categories: current-customer sales and new-business sales.

Current-Customer Sales

Sales personnel who concentrate on current customers call on people and organizations that have purchased products from the firm before. These salespeople seek more sales from existing customers by following up previous sales. Current customers can also be sources of leads for new prospects.

New-Business Sales

Business organizations depend to some degree on sales to new customers. New-business sales personnel locate prospects and convert them into buyers. Salespeople help generate new business in many organizations, but even more so in organizations that sell real estate, insurance, appliances, automobiles, and business-to-business supplies and services. These organizations depend in large part on new-customer sales.

ORDER TAKERS

Taking orders is a repetitive task salespeople perform to perpetuate long-lasting, satisfying customer relationships. **Order takers** primarily seek repeat sales, generating the bulk of many firms' total sales. One of their major objectives is to be certain that customers have sufficient product quantities where and when needed. Most order takers handle orders for standardized products that are purchased routinely and do not require extensive sales efforts. The role of

order getters

Salespeople who sell to new customers and increase sales to current customers

order takers

Salespeople who primarily seek repeat sales

Emerging Trends in Marketing



The iPad Changes How Salespeople Conduct Business

The iPad is becoming a valuable tool for salespeople. It is increasingly common to see a salesperson with iPad in hand during a sales call or on the sales floor. This handheld device is affecting many markets, including medical and automobile industries. Companies such as Abbott Laboratories and Medtronic Inc. are purchasing thousands of iPads and distributing them to their sales forces. Once in hand, salespeople can easily pull up information on their products/services. They are also able to share information

quickly—a plus when dealing with busy doctors and hospital administrators. Automotive dealerships, such as Mercedes, are using iPads to conduct activities such as loan inquiries and display payment options while staying close to the cars themselves. This way, the customers never lose sight of their potential purchases—and the salesperson does not lose sight of the customers. The use of iPads may increase engagement among salespeople and their customers to generate additional sales.^b



© Digital Vision/Getty Images

Types of Salespeople

A field salesperson interacts with grocery store management about new products or promotional opportunities.

order takers is changing, however, as the position moves more toward one that identifies and solves problems to better meet the needs of customers. There are two groups of order takers: inside order takers and field order takers.

Inside Order Takers

In many businesses, inside order takers, who work in sales offices, receive orders by mail, telephone, and the Internet. Certain producers, wholesalers, and retailers have sales personnel who sell from within the firm rather than in the field. Some inside order takers communicate with customers face to face; retail salespeople, for example, are classified as inside order takers. As more orders are placed electronically, the role of the inside order taker continues to change.

Field Order Takers

Salespeople who travel to customers are outside, or field, order takers. Often, customers and field order takers develop interdependent relationships. The buyer relies on the salesperson to take orders periodically (and sometimes to deliver them), and the salesperson counts on the buyer to purchase a certain quantity of products periodically. Use of small computers has improved the field order taker's inventory and order-tracking capabilities.

SUPPORT PERSONNEL

Support personnel facilitate selling but usually are not involved solely with making sales. They engage primarily in marketing industrial products, locating prospects, educating customers, building goodwill, and providing service after the sale. There are many kinds of sales support personnel; the three most common are missionary, trade, and technical salespeople.

support personnel

Sales staff members who facilitate selling but usually are not involved solely with making sales

missionary salespeople

Support salespeople, usually employed by a manufacturer, who assist the producer's customers in selling to their own customers

trade salespeople

Salespeople involved mainly in helping a producer's customers promote a product

technical salespeople

Support salespeople who give technical assistance to a firm's current customers

Missionary Salespeople

Missionary salespeople, usually employed by manufacturers, assist the producer's customers in selling to their own customers. Missionary salespeople may call on retailers to inform and persuade them to buy the manufacturer's products. When they succeed, retailers purchase products from wholesalers, which are the producer's customers. Manufacturers of medical supplies and pharmaceuticals often use missionary salespeople, called *detail reps*, to promote their products to physicians, hospitals, and pharmacists.

Trade Salespeople

Trade salespeople are not strictly support personnel because they usually take orders as well. However, they direct much effort toward helping customers—especially retail stores—promote the product. They are likely to restock shelves, obtain more shelf space, set up displays, provide in-store demonstrations, and distribute samples to store customers. Food producers and processors commonly employ trade salespeople.

Technical Salespeople

Technical salespeople give technical assistance to the organization's current customers, advising them on product characteristics and applications, system designs, and installation

procedures. Because this job is often highly technical, the salesperson usually has formal training in one of the physical sciences or in engineering. Technical sales personnel often sell technical industrial products, such as computers, heavy equipment, and steel.

When hiring sales personnel, marketers seldom restrict themselves to a single category, because most firms require different types of salespeople. Several factors dictate how many of each type a particular company should have. Product use, characteristics, complexity, and price influence the kind of sales personnel used, as do the number and characteristics of customers. The types of marketing channels and the intensity and type of advertising also affect the composition of a sales force.

Selected Types of Selling

Personal selling has become an increasingly complex process due in large part to rapid technological innovation. Most importantly, the focus of personal selling is shifting from selling a specific product to building long-term relationships with customers by finding solutions to their needs, problems, and challenges. As a result, the roles of salespeople are changing. Among the newer philosophies for personal selling are team selling and relationship selling.

TEAM SELLING

Many products, particularly expensive high-tech business products, have become so complex that a single salesperson can no longer be expert in every aspect of the product and purchase process. **Team selling**, which involves the salesperson joining with people from the firm's financial, engineering, and other functional areas, is appropriate for such products. The salesperson takes the lead in the personal selling process, but other members of the team bring their unique skills, knowledge, and resources to the process to help customers find solutions to their own business challenges. Selling teams may be created to address a particular short-term situation or they may be formal, ongoing teams. Team selling is advantageous in situations calling for detailed knowledge of new, complex, and dynamic technologies like jet aircraft and medical equipment. It can be difficult, however, for highly competitive salespersons to adapt to a team selling environment.

RELATIONSHIP SELLING

Relationship selling, also known as consultative selling, involves building mutually beneficial long-term associations with a customer through regular communications over prolonged periods of time. Like team selling, it is especially used in business-to-business marketing. Relationship selling involves finding solutions to customers' needs by listening to them, gaining a detailed understanding of their organizations, understanding and caring about their needs and challenges, and providing support after the sale. Sales relationships are also built on being able to recover when customers are concerned about services. Being proactive in identifying the need for recovery behaviors is a major part of relationship selling.¹⁵

Relationship selling has a profound impact in generating loyal customers. For instance, when Sportron International Inc. began emphasizing relationship building, it saw an increase in distributor enrollment of 25 percent and a decrease in dropouts of 5 to 8 percent each month.¹⁶ Relationship selling efforts can be enhanced through sales automation technology tools that enhance interactive communication.¹⁷ New applications for customer relationship management are also being provided through companies

team selling

The use of a team of experts from all functional areas of a firm, led by a salesperson, to conduct the personal selling process

relationship selling

The building of mutually beneficial long-term associations with a customer through regular communications over prolonged periods of time

like Salesforce.com, which offers a cloud-computing model to help companies keep track of the customer life cycle without having to install any software (applications are downloaded). Social networks are being utilized in sales, adding new layers to the selling process. Salesforce CRM, for instance, now allows users to connect with their customers in real time through such networks as Twitter and Facebook. Sales force automation, which involves utilizing information technology to automatically track all stages of the sales process (a part of customer relationship management) has been found to increase salesperson professionalism and responsiveness, customer interaction frequency, and customer relationship quality.¹⁸

Managing the Sales Force

The sales force is directly responsible for generating one of an organization's primary inputs: sales revenue. Without adequate sales revenue, businesses cannot survive. In addition, a firm's reputation is often determined by the ethical conduct of its sales force. Indeed, a positive ethical climate, one component of corporate culture, has been linked with decreased role stress and turnover intention and improved job attitudes and job performance in sales.¹⁹ Research has demonstrated that a negative ethical climate will trigger higher-performing salespeople to leave a company at a higher rate than those in a company perceived to be ethical.²⁰ The morale and ultimately the success of a firm's sales force depend in large part on adequate compensation, room for advancement, sufficient training, and management support—all key areas of sales management. Salespeople who are not satisfied with these elements may leave. Evaluating the input of salespeople is an important part of sales force management because of its strong bearing on a firm's success. Table 18.1 provides recommendations on how to attract and retain a top-quality sales force.

TABLE 18.1 Suggestions for Attracting and Retaining a Top Sales Force

Training and development	• On-the-job training • Individual instruction • Seminars • On-site classroom instruction
Compensation	• Make sure pay mix isn't too risky (high commission, low base) for sales role • Mix base salary with commission, bonus, or both • Base bonuses/commission on reaching sales goals rather than on individual sales dollars • Maintain competitive benefits and expense reimbursement practices
Work/life autonomy	• Offer flexible hours • Consider telecommuting/work-at-home options
Product quality and service	• Ensure products and services meet customer needs • Provide the appropriate service after the sale

Source: "Attracting & Retaining a Top Sales Force," Where Great Workplaces Start, <http://greatworkplace.wordpress.com/2010/02/10/attracting-retaining-a-top-sales-force/> (accessed April 6, 2010).

We explore eight general areas of sales management: establishing sales force objectives, determining sales force size, recruiting and selecting salespeople, training sales personnel, compensating salespeople, motivating salespeople, managing sales territories, and controlling and evaluating sales force performance.

ESTABLISHING SALES FORCE OBJECTIVES

To manage a sales force effectively, sales managers must develop sales objectives. Sales objectives tell salespeople what they are expected to accomplish during a specified time period. They give the sales force direction and purpose and serve as standards for evaluating and controlling the performance of sales personnel. Sales objectives should be stated in precise, measurable terms; specify the time period and geographic areas involved; and be achievable.

Sales objectives are usually developed for both the total sales force and individual salespeople. Objectives for the entire force are normally stated in terms of sales volume, market share, or profit. Volume objectives refer to dollar or unit sales. For example, the objective for an electric drill producer's sales force might be to sell \$18 million worth of drills, or 600,000 drills annually. When sales goals are stated in terms of market share, they usually call for an increase in the proportion of the firm's sales relative to the total number of products sold by all businesses in that industry. When sales objectives are based on profit, they are generally stated in terms of dollar amounts or return on investment.

Sales objectives, or quotas, for individual salespeople are commonly stated in terms of dollar or unit sales volume. Other bases used for individual sales objectives include average order size, average number of calls per time period, and ratio of orders to calls.

DETERMINING SALES FORCE SIZE

Sales force size is important because it influences the company's ability to generate sales and profits. Moreover, size of the sales force affects the compensation methods used, salespeople's morale, and overall sales force management. Sales force size must be adjusted periodically because a firm's marketing plans change along with markets and forces in the marketing environment. One danger in cutting back the size of the sales force to increase profits is that the sales organization may lose strength and resiliency, preventing it from rebounding when growth occurs or better market conditions prevail.

Several analytical methods can help determine optimal sales force size. One method involves determining how many sales calls per year are necessary for the organization to serve customers effectively and then dividing this total by the average number of sales calls a salesperson makes annually. A second method is based on marginal analysis, in which additional salespeople are added to the sales force until the cost of an additional salesperson equals the additional sales generated by that person. Although marketing managers may use one or several analytical methods, they normally temper decisions with subjective judgments.

RECRUITING AND SELECTING SALESPEOPLE

To create and maintain an effective sales force, sales managers must recruit the right type of salespeople. In **recruiting**, the sales manager develops a list of qualified applicants for sales positions. Effective recruiting efforts are a vital part of implementing the strategic sales force plan and can help assure successful organizational performance. Costs of hiring and training a salesperson are soaring, reaching more than \$60,000 in some industries. Thus, recruiting errors are expensive.

recruiting

Developing a list of qualified applicants for sales positions

Recruiting and Selecting Salespeople

Potential sales force employees can be recruited through a variety of sources, including job fairs.



Zuma Press/Newscom

To ensure that the recruiting process results in a pool of qualified applicants, a sales manager establishes a set of qualifications before beginning to recruit. Although marketers have tried for years to identify a set of traits characterizing effective salespeople, no set of generally accepted characteristics exists yet. Experts agree that good salespeople exhibit optimism, flexibility, self-motivation, good time management skills, empathy, and the ability to network and maintain long-term customer relationships. Today, companies are increasingly seeking applicants capable of employing relationship-building and consultative approaches as well as the ability to work effectively in team selling efforts.

Sales managers must determine what set of traits best fits their companies' particular sales tasks. Two activities help establish this set of required attributes. First, the sales manager should prepare a job description listing specific tasks salespeople are to perform. Second, the manager should analyze characteristics of the firm's successful salespeople, as well as those of ineffective sales personnel. From the job description and analysis of traits, the sales manager should be able to develop a set of specific requirements and be aware of potential weaknesses that could lead to failure.

A sales manager generally recruits applicants from several sources: departments within the firm, other firms, employment agencies, educational institutions, respondents to advertisements, websites (like Monster.com), and individuals recommended by current employees. The specific sources depend on the type of salesperson required and the manager's experiences and successes with particular recruiting tactics.

The process of recruiting and selecting salespeople varies considerably from one company to another. Companies intent on reducing sales force turnover are likely to have strict recruiting and selection procedures. Sales management should design a selection procedure that satisfies the company's specific needs. Some organizations use the specialized services of other companies to hire sales personnel. The process should include steps that yield the information required to make accurate selection decisions. However, because each step incurs a certain amount of expense, there should be no more steps than necessary. Stages of the selection process should be sequenced so that the more expensive

steps, such as a physical examination, occur near the end. Fewer people will then move through higher-cost stages.

Recruitment should not be sporadic; it should be a continuous activity aimed at reaching the best applicants. The selection process should systematically and effectively match applicants' characteristics and needs with the requirements of specific selling tasks. Finally, the selection process should ensure that new sales personnel are available where and when needed.

TRAINING SALES PERSONNEL

Many organizations have formal training programs; others depend on informal, on-the-job training. Some systematic training programs are quite extensive, whereas others are rather short and rudimentary. Whether the training program is complex or simple, developers must consider what to teach, who to train, and how to train them.

A sales training program can concentrate on the company, its products, or selling methods. Training programs often cover all three. Such programs can be aimed at newly hired salespeople, experienced salespeople, or both. Training for experienced company salespeople usually emphasizes product information or the use of new technology, although salespeople must also be informed about new selling techniques and changes in company plans, policies, and procedures. Sales managers should use ethics training to institutionalize an ethical climate, improve employee satisfaction, and help prevent misconduct. IBM's Health Care and Life Sciences Group, for example, constantly educates its sales force concerning changing trends and effective ways to reach clients. The vice president of IBM's Eastern Regional Solution Sales runs two weeks of extensive sales force training each year, part of which is used to familiarize the sales representatives with new products and services as well as current customer concerns.²¹ Ordinarily, new sales personnel require comprehensive training, whereas experienced personnel need both refresher courses on established products and training regarding new-product information and technology changes.

Sales training may be done in the field, at educational institutions, in company facilities, and/or online using web-based technology. For example, Platinum Guild International USA used web-based technologies to launch its first online sales training program as an interactive module that retail jewelers could utilize to learn about the platinum industry.²² For many companies, online training saves time and money and helps salespeople learn about new products quickly. Some firms train new employees before assigning them to a specific sales position. Others put them into the field immediately, providing formal training only after they have gained some experience. Training programs for new personnel can be as short as several days or as long as three years; some are even longer. Sales training for experienced personnel is often scheduled when sales activities are not too demanding. Because experienced salespeople usually need periodic retraining, a firm's sales management must determine the frequency, sequencing, and duration of these efforts.

Sales managers, as well as other salespeople, often engage in sales training, whether daily on the job or periodically during sales meetings. Salespeople sometimes receive training from technical specialists within their own organizations. In addition, a number of outside companies specialize in providing sales training programs. Materials for sales training programs range from videos, texts, online materials, manuals, and cases to programmed learning devices and digital media. Lectures, demonstrations, simulation exercises, role-plays, and on-the-job training can all be effective training methods. Self-directed learning to supplement traditional sales training has the potential to improve sales performance. The choice of methods and materials for a particular sales training program depends on type and number of trainees, program content and complexity, length and location, size of the training budget, number of trainers, and a trainer's expertise.

COMPENSATING SALESPEOPLE

To develop and maintain a highly productive sales force, an organization must formulate and administer a compensation plan that attracts, motivates, and retains the most effective individuals. The plan should give sales management the desired level of control and provide sales personnel with acceptable levels of income, freedom, and incentive. It should be flexible, equitable, easy to administer, and easy to understand. Good compensation programs facilitate and encourage proper treatment of customers. Obviously, it is quite difficult to incorporate all of these requirements into a single program. Figure 18.2 shows the average salaries for sales representatives.

Developers of compensation programs must determine the general level of compensation required and the most desirable method of calculating it. In analyzing the required compensation plan, sales management must ascertain a salesperson's value to the company on the basis of the tasks and responsibilities associated with the sales position. Sales managers may consider a number of factors, including salaries of other types of personnel in the firm, competitors' compensation plans, costs of sales force turnover, and nonsalary selling expenses. The average low-level salesperson earns about \$71,000 annually (including commissions and bonuses), whereas a high-level, high-performing salesperson can make hundreds of thousands a year.

Sales compensation programs usually reimburse salespeople for selling expenses, provide some fringe benefits, and deliver the required compensation level. To achieve this, a firm may use one or more of three basic compensation methods: straight salary, straight commission, or a combination of the two. Table 18.2 lists the major characteristics, advantages, and disadvantages of each method. In a **straight salary compensation plan**, salespeople are paid a specified amount per time period, regardless of selling effort. This sum remains the same until they receive a pay increase or decrease. Although this method is easy to administer and affords salespeople financial security, it provides little incentive for them to boost selling efforts. In a **straight commission compensation plan**, salespeople's compensation is determined solely

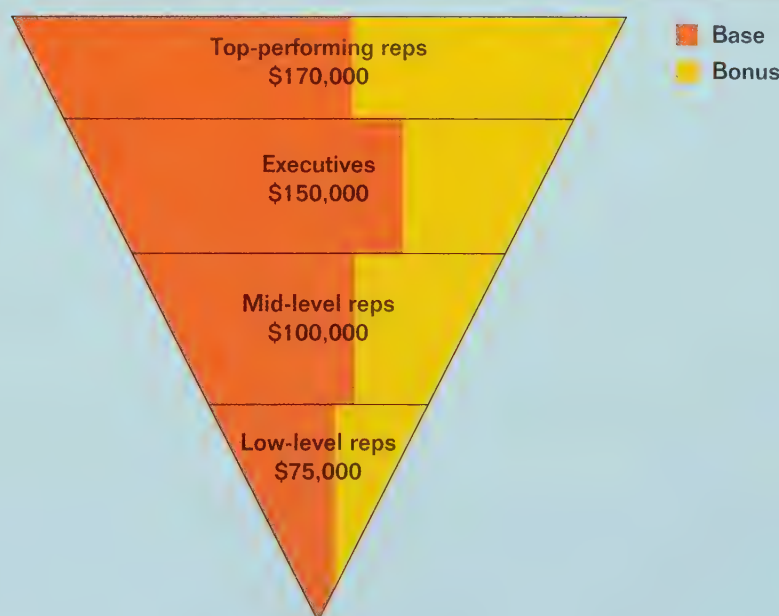
straight salary compensation plan

Paying salespeople a specific amount per time period, regardless of selling effort

straight commission compensation plan

Paying salespeople according to the amount of their sales in a given time period

FIGURE 18.2 Average Salaries for Sales Representatives*



*Average salary: \$130,000

Source: Adapted from Joseph Kornik, "What's It All Worth?" *Sales and Marketing Management*, May 2007, p. 29.
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TABLE 18.2 Characteristics of Sales Force Compensation Methods

Compensation Method	Use (%)*	When Especially Useful	Advantages	Disadvantages
Straight salary	17.5	Compensating new salespeople; firm moves into new sales territories that require developmental work; sales requiring lengthy presale and post-sale services	Gives salespeople security; gives sales managers control over salespeople; easy to administer; yields more predictable selling expenses	Provides no incentive; necessitates closer supervision of salespeople; during sales declines, selling expenses remain constant
Straight commission	14.0	Highly aggressive selling is required; nonselling tasks are minimized; company uses contractors and part-timers	Provides maximum amount of incentive; by increasing commission rate, sales managers can encourage salespeople to sell certain items; selling expenses relate directly to sales resources	Salespeople have little financial security; sales managers have minimum control over sales force; may cause salespeople to give inadequate service to smaller accounts; selling costs less predictable
Combination	68.5	Sales territories have relatively similar sales potential; firm wishes to provide incentive but still control sales force activities	Provides certain level of financial security; provides some incentive; can move sales force efforts in profitable direction	Selling expenses less predictable; may be difficult to administer

*The figures are computed from *Dartnell's 30th Sales Force Compensation Survey*, Dartnell Corporation, Chicago, 1999.

Source: Charles Futrell, *Sales Management* (Ft. Worth: Dryden Press, 2001), pp. 307–316.

by sales for a given period. A commission may be based on a single percentage of sales or on a sliding scale involving several sales levels and percentage rates (e.g., sales under \$500,000 a quarter would receive a smaller commission than sales over \$500,000 each quarter). Although this method motivates sales personnel to escalate their selling efforts, it offers them little financial security, and it can be difficult for sales managers to maintain control over the sales force. Many new salespeople indicate a reluctance to accept the risks associated with straight commission. However, more experienced salespeople know this option can provide the greatest income potential. For these reasons, many firms offer a **combination compensation plan** in which salespeople receive a fixed salary plus a commission based on sales volume. Some combination programs require that a salesperson exceed a certain sales level before earning a commission; others offer commissions for any level of sales.

When selecting a compensation method, sales management weighs the advantages and disadvantages listed in the table. Researchers have found that higher commissions are the most preferred reward, followed by pay increases.²³ For example, the Container Store, which markets do-it-yourself organizing and storage products, prefers to pay its sales staff salaries that are 50 to 100 percent higher than those offered by rivals instead of basing pay on commission plans.²⁴ When sales fell for the first time in 30 years, the Container Store refused to lay off staff like other companies were doing. Instead, the company froze salaries and 401(k) matches for everyone in the company and introduced sales contests as a way to motivate staff.²⁵

combination compensation plan

Paying salespeople a fixed salary plus a commission based on sales volume

Motivating Salespeople

Mary Kay iconically uses the pink Cadillac as motivation for the company's sales representatives.



© The Orange County Register/Zuma Press

MOTIVATING SALESPEOPLE

Although financial compensation is an important incentive, additional programs are necessary for motivating sales personnel. The nature of the jobs, job security, and pay are considered to be the most important factors for the college student going into the sales area today.²⁶ A sales manager should develop a systematic approach for motivating salespeople to be productive. Effective sales force motivation is achieved through an organized set of activities performed continuously by the company's sales management.

Sales personnel, like other people, join organizations to satisfy personal needs and achieve personal goals. Sales managers must identify those needs and goals and strive to create an organizational climate that allows each salesperson to fulfill them. Enjoyable working conditions, power and authority, job security, and opportunity to excel are effective motivators, as are company efforts to make sales jobs more productive and efficient. At the Container Store, for example, first-year sales personnel receive 263 hours of training about the company's products.²⁷ Research has shown that a strong corporate culture leads to higher levels of job satisfaction and organizational commitment and lower levels of job stress.²⁸

Sales contests and other incentive programs can also be effective motivators. These can motivate salespeople to increase sales or add new accounts, promote special items, achieve greater volume per sales call, and cover territories more thoroughly. However, companies need to understand salespersons' preferences when designing contests in order to make them effective in increasing sales. Some companies find such contests powerful tools for motivating sales personnel to achieve company goals. Managers should be careful to craft sales contests that support a strong customer orientation as well as motivate salespeople. In smaller firms lacking the resources for a formal incentive program, a simple but public "thank-you" and the recognition from management at a sales meeting, along with a small-denomination gift card, can be very rewarding.

Salesperson turnover is one of the most critical concerns of organizations. Lower organizational commitment has been found to relate directly to job turnover. Identifying with the

organization and performance are tied directly to organizational commitment that reduces turnover.²⁹ Properly designed incentive programs pay for themselves many times over, and sales managers are relying on incentives more than ever. Recognition programs that acknowledge outstanding performance with symbolic awards, such as plaques, can be very effective when carried out in a peer setting. The most common incentive offered by companies is cash, followed by gift cards and travel.³⁰ Travel reward programs can confer a high-profile honor, provide a unique experience that makes recipients feel special, and build camaraderie among award-winning salespeople. However, some recipients of travel awards may feel they already travel too much on the job. Cash rewards are easy to administer, are always appreciated by recipients, and appeal to all demographic groups. However, cash has no visible “trophy” value and provides few “bragging rights.” The benefits of awarding merchandise are that the items have visible trophy value. In addition, recipients who are allowed to select the merchandise experience a sense of control, and merchandise awards can help build momentum for the sales force. The disadvantages of using merchandise are that employees may have lower perceived value of the merchandise, and the company may experience greater administrative problems. Some companies outsource their incentive programs to companies that specialize in the creation and management of such programs.

MANAGING SALES TERRITORIES

The effectiveness of a sales force that must travel to customers is somewhat influenced by management’s decisions regarding sales territories. When deciding on territories, sales managers must consider size, geographic shape, routing, and scheduling.

Creating Sales Territories

Several factors enter into the design of a sales territory’s size and geographic shape. First, sales managers must construct territories that allow sales potential to be measured. Sales territories often consist of several geographic units, such as census tracts, cities, counties, or states, for which market data are obtainable. Sales managers usually try to create territories with similar sales potential, or requiring about the same amount of work. If territories have equal sales potential, they will almost always be unequal in geographic size. Salespeople with larger territories have to work longer and harder to generate a certain sales volume. Conversely, if sales territories requiring equal amounts of work are created, sales potential for those territories will often vary. Think about the effort required to sell in New York and Connecticut versus the sales effort required in a larger, less populated area like Montana and Wyoming. If sales personnel are partially or fully compensated through commissions, they will have unequal income potential. Many sales managers try to balance territorial workloads and earning potential by using differential commission rates. At times, sales managers use commercial programs to help them balance sales territories. Although a sales manager seeks equity when developing and maintaining sales territories, some inequities always prevail. A territory’s size and geographical shape should also help the sales force provide the best possible customer coverage and should minimize selling costs. Customer density and distribution are important factors.



Evaluating Sales Performance

SumTotal offers systems to track salesperson productivity.

Routing and Scheduling Salespeople

The geographic size and shape of a sales territory are the most important factors affecting the routing and scheduling of sales calls. Next in importance is the number and distribution of customers within the territory, followed by sales call frequency and duration. Those in charge of routing and scheduling must consider the sequence in which customers are called on, specific roads or transportation schedules to be used, number of calls to be made in a given period, and time of day the calls will occur. In some firms, salespeople plan their own routes and schedules with little or no assistance from the sales manager. In others, the sales manager maintains significant responsibility. No matter who plans the routing and scheduling, the major goals should be to minimize salespeople's nonselling time (time spent traveling and waiting) and maximize their selling time. The goal in planning should try to achieve these goals so that a salesperson's travel and lodging costs are held to a minimum.

CONTROLLING AND EVALUATING SALES FORCE PERFORMANCE

To control and evaluate sales force performance properly, sales management needs information. A sales manager cannot observe the field sales force daily and thus relies on salespeople's call reports, customer feedback, contracts, and invoices. Call reports identify the customers called on and present detailed information about interactions with those clients. Sales personnel often must file work schedules indicating where they plan to be during specific time periods. Data about a salesperson's interactions with customers and prospects can be included in the company's customer relationship management system. This information provides insights about the salesperson's performance.

Dimensions used to measure a salesperson's performance are determined largely by sales objectives, normally set by the sales manager. If an individual's sales objective is stated in terms of sales volume, that person should be evaluated on the basis of sales volume generated. Even if a salesperson is assigned a major objective, he or she is ordinarily expected to achieve several related objectives as well. Thus, salespeople are often judged along several dimensions. Sales managers evaluate many performance indicators, including average number of calls per day, average sales per customer, actual sales relative to sales potential, number of new-customer orders, average cost per call, and average gross profit per customer.

To evaluate a salesperson, a sales manager may compare one or more of these dimensions with predetermined performance standards. However, sales managers commonly compare a salesperson's performance with that of other employees operating under similar selling conditions or the salesperson's current performance with past performance. Sometimes, management judges factors that have less direct bearing on sales performance, such as personal appearance, product knowledge, and ethical standards. One concern is the tendency to reprimand top sellers less severely than poor performers for engaging in unethical selling practices.

After evaluating salespeople, sales managers take any needed corrective action to improve sales force performance. They may adjust performance standards, provide additional training, or try other motivational methods. Corrective action may demand comprehensive changes in the sales force.

The Nature of Sales Promotion

sales promotion

An activity and/or material intended to induce resellers or salespeople to sell a product or consumers to buy it

Sales promotion is an activity or material, or both, that acts as a direct inducement, offering added value or incentive for the product, to resellers, salespeople, or consumers. It encompasses all promotional activities and materials other than personal selling, advertising, and public relations. Wendy's, for example, created a social media promotion called "Free Fries For All."

Green Marketing



Avon Empowers Women Environmentally

Avon is taking its theme of woman empowerment to a new level in its creation of a “global women’s environmental movement.” Avon launched the environmental initiative Hello Green Tomorrow in 65 countries with an aim to replenish South America’s rainforests. Helping in its endeavor is Avon’s 6 million sales representatives, who will promote green education worldwide.

Its message to consumers is simple: donate as little as \$1 to plant a tree. Determined to lead by example, Avon started off

by donating \$1 million to the Nature Conservancy. One year later, the number of new trees planted had reached 2 million. Avon hopes its efforts will begin the steps to restore the 93 percent of South American rainforest that has been depleted.

Avon is also encouraging its suppliers to be sustainable and plans to be 100 percent supplied by recycled or certified paper products within the next decade (certification indicates that the wood came from responsibly managed forests). Avon seems dedicated to saving the environment one dollar at a time.^c

Consumers could get an order of free Natural Cut Sea Salt Fries by going to Wendy’s Facebook app and clicking on the “fry” icon.³¹ In competitive markets, where products are very similar, sales promotion provides additional inducements that encourage product trial and purchase.

Marketers often use sales promotion to facilitate personal selling, advertising, or both. Companies also employ advertising and personal selling to support sales promotion activities. For example, marketers frequently use advertising to promote contests, free samples, and premiums. The most effective sales promotion efforts are highly interrelated with other promotional activities. Decisions regarding sales promotion often affect advertising and personal selling decisions, and vice versa.

Sales promotion can increase sales by providing extra purchasing incentives. Many opportunities exist to motivate consumers, resellers, and salespeople to take desired actions. Some kinds of sales promotion are designed specifically to stimulate resellers’ demand and effectiveness, some are directed at increasing consumer demand, and some focus on both consumers and resellers. Regardless of the purpose, marketers must ensure that sales promotion objectives are consistent with the organization’s overall objectives, as well as with its marketing and promotion objectives.

When deciding which sales promotion methods to use, marketers must consider several factors, particularly product characteristics (price, size, weight, costs, durability, uses, features, and hazards) and target market characteristics (age, gender, income, location, density, usage rate, and shopping patterns). How products are distributed and the number and types of resellers may determine the type of method used. The competitive and legal environment may also influence the choice.

The use of sales promotion has increased dramatically over the past 30 years, primarily at the expense of advertising. This shift in how promotional dollars are used has occurred for several reasons. Heightened concerns about value have made customers more responsive to promotional offers, especially price discounts and point-of-purchase displays. Thanks to their size and access to checkout scanner data, retailers have gained considerable power in the supply chain and are demanding greater promotional efforts from manufacturers to boost retail profits. Declines in brand loyalty have produced an environment in which sales promotions aimed at persuading customers to switch brands are more effective. Finally, the stronger emphasis placed on improving short-term performance results calls for greater use of sales promotion methods that yield quick (although perhaps short-lived) sales increases.³²

In the remainder of this chapter, we examine several consumer and trade sales promotion methods, including what they entail and what goals they can help marketers achieve.

CONSUMER SALES PROMOTION METHODS

Consumer sales promotion methods encourage or stimulate consumers to patronize specific retail stores or try particular products. Consumer sales promotion methods initiated by retailers often aim to attract customers to specific locations, whereas those used by manufacturers generally introduce new products or promote established brands. In this section, we discuss coupons, cents-off offers, money refunds and rebates, frequent-user incentives, point-of-purchase displays, demonstrations, free samples, premiums, consumer contests and games, and consumer sweepstakes.

Coupons

Coupons reduce a product's price and aim to prompt customers to try new or established products, increase sales volume quickly, attract repeat purchasers, or introduce new package sizes or features. Savings are deducted from the purchase price. Coupons are the most widely used consumer sales promotion technique. Although coupon usage had been spiraling downward for years, the economic downturn reversed this trend. In 2010, 332 billion coupons were redeemed for a value of \$3.7 billion.³³ Digital coupons via websites and mobile apps are also becoming popular. Table 18.3 outlines the top 10 most popular online printable and mobile coupon categories. Social deal sites such as Groupon, Living Social, and BuyWithMe, while not exactly in the coupon area, are encouraging consumers to look for deals or better prices. To take advantage of the new consumer interest in coupons, digital marketing—including mobile, social, and other platforms—are being used for couponing. For instance, Cold Stone Creamery is increasingly using digital coupons as incentives, allocating 20 percent of its couponing budget toward digital coupons. However, print coupons are still the most widely used and have the most redemption value.³⁴

consumer sales promotion methods

Sales promotion techniques that encourage consumers to patronize specific stores or try particular products

coupons

Written price reductions used to encourage consumers to buy a specific product

TABLE 18.3 Top 10 Coupon Categories, Printable versus Mobile Access

Rank	Online Printable Coupons*	Coupons Accessed via Mobile*
1	Ready-to-eat cereal	Ready-to-eat cereal
2	Yogurt	Yogurt
3	Refrigerated dough	Refrigerated dough
4	Vegetables	Vegetables
5	Portable snacks	Lunch meats
6	Lunch meats	Dessert items
7	Nutritional snacks	Portable snacks
8	Dessert items	Nutritional snacks
9	Cheese	Cheese
10	Baby needs; Other	Bottled water, noncarbonated

* First half of 2010.

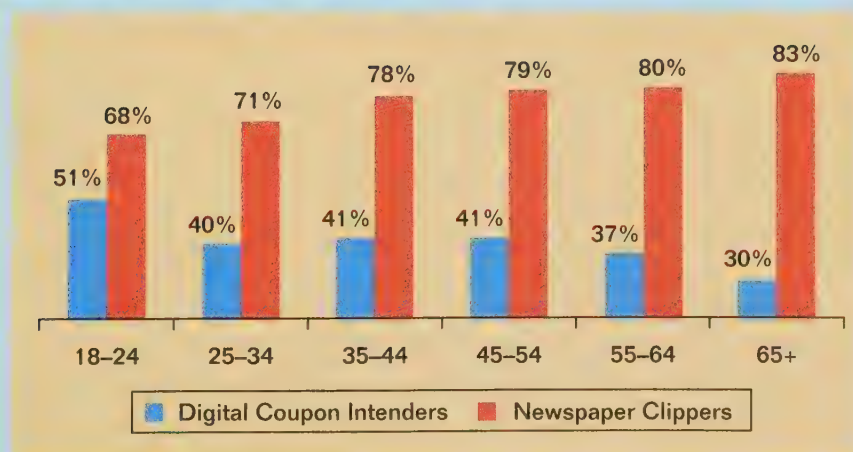
Source: Katy Bachman, "Younger Consumers Prefer Online Coupons," *Brand Week*, April 2, 2009, © 2011.

For best results, coupons should be easily recognized and state the offer clearly. The nature of the product (seasonal demand for it, life-cycle stage, and frequency of purchase) is the prime consideration in setting up a coupon promotion. Paper coupons are distributed on and inside packages, through freestanding inserts, in print advertising, on the back of cash register receipts, and through direct mail. Electronic coupons are distributed online, via in-store kiosks, through shelf dispensers in stores, and at checkout counters.³⁵ As shown in Figure 18.3, young people are more accepting of online coupons than older age groups. When deciding on the distribution method for coupons, marketers should consider strategies and objectives, redemption rates, availability, circulation, and exclusivity. The coupon distribution and redemption arena has become very competitive. To avoid losing customers, many grocery stores will redeem any coupons offered by competitors. Also, to draw customers to their stores, grocers double and sometimes even triple the value of customers' coupons.

Coupons offer several advantages. Print advertisements with coupons are often more effective at generating brand awareness than are print ads without coupons. Generally, the larger the coupon's cash offer, the better the recognition generated. Coupons reward current product users, win back former users, and encourage purchases in larger quantities. Because they are returned, coupons also help a manufacturer determine whether it reached the intended target market. The advantages of using electronic coupons over paper coupons include lower cost per redemption, greater targeting ability, improved data-gathering capabilities, and greater experimentation capabilities to determine optimal face values and expiration cycles.³⁶

Drawbacks of coupon use include fraud and misredemption, which can be expensive for manufacturers. Coupon fraud—including counterfeit Internet coupons as well as coupons cashed in under false retailer names—costs manufacturers hundreds of millions in losses each year.³⁷ Another disadvantage, according to some experts, is that coupons are losing their value; because so many manufacturers offer them, consumers have learned not to buy without some incentive, whether that pertains to a coupon, a rebate, or a refund. Furthermore, brand loyalty among heavy coupon users has diminished, and many consumers redeem coupons only for products they normally buy. It is believed that

FIGURE 18.3 Effect of Age on Coupon Usage



Source: Katy Bachman, "Younger Consumers Prefer Online Coupons," *Brand Week*, April 2, 2009, www.brandweek.com/bw/content_display/news-and-features/shopper-marketing/e3i73a607e8e83226da705b8c06515229c4 (accessed July 25, 2011).



© Daisy Brand

Coupons

Daisy stimulates sales for its products through the use of coupons.

about three-fourths of coupons are redeemed by people already using the brand on the coupon. Thus, coupons have questionable success as an incentive for consumers to try a new brand or product. An additional problem with coupons is that stores often do not have enough of the coupon item in stock. This situation generates ill will toward both the store and the product.

Cents-Off Offers

With **cents-off offers**, buyers pay a certain amount less than the regular price shown on the label or package. Like coupons, this method can serve as a strong incentive for trying new or unfamiliar products and is commonly used in product introductions. It can stimulate product sales or multiple purchases, yield short-lived sales increases, and promote products during off-seasons. It is an easy method to control and is often used for specific purposes. If used on an ongoing basis, however, cents-off offers reduce the price for customers who would buy at the regular price and may also cheapen a product's image. In addition, the method often requires special handling by retailers who are responsible for giving the discount at the point of sale.

Money Refunds

With **money refunds**, consumers submit proof of purchase and are mailed a specific amount of money. Usually, manufacturers demand multiple product purchases before consumers qualify for money refunds. Marketers employ

money refunds as an alternative to coupons to stimulate sales. Money refunds, used primarily to promote trial use of a product, are relatively low in cost. However, they sometimes generate a low response rate and thus have limited impact on sales.

Rebates

With **rebates**, the consumer is sent a specified amount of money for making a single product purchase. Rebates are generally given on more expensive products than money refunds and are used to encourage customers. Marketers also use rebates to reinforce brand loyalty, provide promotion buzz for salespeople, and advertise the product. On larger items, such as cars, rebates are often given at the point of sale. Most rebates, however, especially on smaller items, are given after the sale, usually through a mail-in process.

One problem with money refunds and rebates is that many people perceive the redemption process as too complicated. According to one estimate, at least 40 percent of consumers do not get their money back because they fail to meet the requirements. Due to the high level of customer complaints, Best Buy eliminated mail-in rebates several years ago.³⁸ To eliminate these complications, many marketers allow customers to apply for a rebate online, which eliminates the need for forms that may confuse customers and frustrate retailers. Consumers may also have negative perceptions of manufacturers' reasons for offering rebates. They may believe the products are untested or have not sold well. If these perceptions are not changed, rebate offers may actually degrade product image and desirability.

cents-off offers

Promotions that allow buyers to pay less than the regular price to encourage purchase

money refunds

Sales promotion techniques that offer consumers a specified amount of money when they mail in a proof of purchase, usually for multiple product purchases

rebates

Sales promotion techniques in which a consumer receives a specified amount of money for making a single product purchase

Frequent-User Incentives

Greeting cards aren't the only products offered by Hallmark. To reward loyal customers, the company offers the Hallmark Gold Crown Card, which allows frequent greeting card buyers to accrue points that are redeemable for merchandise and discounts.³⁹ Many firms develop incentive programs to reward customers who engage in repeat (frequent) purchases. For example, most major airlines offer frequent-flyer programs that reward customers who have flown a specified number of miles with free tickets for additional travel. Frequent-user incentives foster customer loyalty to a specific company or group of cooperating companies. They are favored by service businesses such as airlines, auto rental agencies, hotels, and local coffee shops. Frequent-user programs not only reward loyal customers but also generate data that can contribute significant information about customers that helps marketers foster desirable customer relationships.

Point-of-Purchase Materials and Demonstrations

Point-of-purchase (POP) materials include outdoor signs, window displays, counter pieces, display racks, and self-service cartons. Innovations in POP displays include sniff-teasers, which give off a product's aroma in the store as consumers walk within a radius of four feet, and computerized interactive displays. These items, often supplied by producers, attract attention, inform customers, and encourage retailers to carry particular products. Retailers have also begun experimenting with new forms of POP technology. For example, The Limited has considered the installation of interactive mirrors in its stores. These mirrors would allow a shopper to scan a dress and then use the mirror to project the dress onto her body to see how she would look in it.⁴⁰ A retailer is likely to use point-of-purchase materials if they are attractive, informative, well-constructed, and in harmony with the store's image.

Demonstrations are excellent attention-getters. Manufacturers offer them temporarily to encourage trial use and purchase of a product or to show how a product works. Because labor costs can be extremely high, demonstrations are not used widely. They can be highly effective for promoting certain types of products, such as appliances, cosmetics, and cleaning supplies. Even automobiles can be demonstrated, not only by a salesperson but also by the prospective buyer during a test drive. Cosmetics marketers, such as Estée Lauder and Clinique, sometimes offer potential customers "makeovers" to demonstrate product benefits and proper application.

Free Samples

Marketers use **free samples** to stimulate trial of a product, increase sales volume in the early stages of a product's life cycle, and obtain desirable distribution. To combat declining brand loyalty, Anheuser-Busch gave out 500,000 samples of free beer throughout the nation.⁴¹ Sampling is the most expensive sales promotion method because production and distribution—at local events, by mail or door-to-door delivery, online, in stores, and on packages—entail high costs. However, it can also be one of the most effective sales promotion methods: a survey by the Promotion Marketing Association's Product Sampling Council found that 92 percent of respondents said they would buy a new product that they had sampled and liked. Nonetheless, sampling's expense remains a key reason it is not used more often.⁴²

Many consumers prefer to get their samples by mail. Other consumers like to sample new food products at supermarkets or try samples of new recipes featuring foods they already like. In designing a free sample, marketers should consider factors like seasonal demand for the product, market characteristics, and prior advertising. Free samples usually are inappropriate for slow-turnover products. Despite high costs, use of sampling is increasing. In a given year, almost three-fourths of consumer product companies may use sampling. Distribution of free samples through websites like StartSampling.com and FreeSamples.com is growing.

point-of-purchase (POP) materials

Signs, window displays, display racks, and similar devices used to attract customers

demonstrations

Sales promotion methods a manufacturer uses temporarily to encourage trial use and purchase of a product or to show how a product works

free samples

Samples of a product given out to encourage trial and purchase

Frequent-User Incentives

Frequent-user incentive programs are often utilized by airlines and hotels, as is the case with Carlson Hotels.

The advertisement for Club Carlson features a collage of images including a tropical beach, the Taj Mahal, a woman holding a glass, a couple embracing, and various hotel interiors. The text reads: "LOYALTY APPLAUDED REWARDED AWARDED", "A FASTER WAY TO A FREE NIGHT AT OVER 1000 CARLSON HOTELS WORLDWIDE", and "Welcome to a whole new world of hotel rewards clubcarlson.com". Logos for Radisson, Club Carlson, Park Inn, and Park Plaza are also visible.

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Premiums

Premiums are items offered free or at a minimal cost as a bonus for purchasing a product. Like the prize in the Cracker Jack box, premiums are used to attract competitors' customers, introduce different sizes of established products, add variety to other promotional efforts, and stimulate consumer loyalty. Creativity is essential when using premiums; to stand out and achieve a significant number of redemptions, the premium must match both the target audience and the brand's image. Premiums must also be easily recognizable and desirable. Premiums are placed on or inside packages and can also be distributed by retailers or through the mail. Examples include a service station giving a free carwash with a fill-up, a free shaving cream with the purchase of a razor, and a free plastic storage box with the purchase of Kraft Cheese Singles.

premiums

Items offered free or at a minimal cost as a bonus for purchasing a product

consumer contests

Sales promotion methods in which individuals compete for prizes based on their analytical or creative skills

consumer games

Sales promotion methods in which individuals compete for prizes based primarily on chance

Consumer Contests

In **consumer contests**, individuals compete for prizes based on their analytical or creative skills. This method can be used to generate retail traffic and frequency of exposure to promotional messages. Contestants are usually more highly involved in consumer contests than in games or sweepstakes, even though total participation may be lower. Contests may also be used in conjunction with other sales promotional methods, such as coupons. For example, Coca-Cola invited amateur filmmakers to submit films for its Coca-Cola Refreshing Filmmaker's Award with a grand prize of \$10,000 and the chance to have their film featured on movie screens across the country.⁴³

Consumer Games

In **consumer games**, individuals compete for prizes based primarily on chance—often by collecting game pieces like bottle caps or a sticker on a carton of French fries. Because collecting multiple pieces may be necessary to win or increase an individual's chances of

winning, the game stimulates repeated business. Development and management of consumer games is often outsourced to an independent public relations firm, which can help marketers navigate federal and state laws that regulate games. Although games may stimulate sales temporarily, there is no evidence to suggest that they affect a company's long-term sales.

Marketers considering games should exercise care. Problems or errors may anger customers and could result in a lawsuit. McDonald's' wildly popular Monopoly game promotion, in which customers collect Monopoly real estate pieces on drink and French fry packages, has been tarnished by both fraud and lawsuits. After six successful years, McDonald's was forced to end the annual promotion when a crime ring, including employees of the promotional firm running the game, were convicted of stealing millions of dollars in winning game pieces. McDonald's later reintroduced the Monopoly game with heightened security. However, the Monopoly promotion underwent scrutiny once again, becoming the focus of a class-action lawsuit filed by Burger King franchisees, who claimed their customers were lured away by the false promises of the McDonald's game. The claim did not hold up in court, however, and was later dismissed.⁴⁴

Sweepstakes

Entrants in a **consumer sweepstakes** submit their names for inclusion in a drawing for prizes. In 2011, the Travel Channel awarded one Grand Prize Winner a trip for two to Greece that included airfare, a three-night stay at the Park Hotel Athens, and a three-night cruise.⁴⁵ Sweepstakes are employed more often than consumer contests and tend to attract a greater number of participants. However, contestants are usually more involved in consumer contests and games than in sweepstakes, even though total participation may be lower. Contests, games, and sweepstakes may be used in conjunction with other sales promotion methods like coupons.

TRADE SALES PROMOTION METHODS

To encourage resellers, especially retailers, to carry their products and promote them effectively, producers use trade sales promotion methods. **Trade sales promotion methods** attempt to persuade wholesalers and retailers to carry a producer's products and market them more aggressively. Marketers use trade sales methods for many reasons, including countering the effect of lower-priced store brands, passing along a discount to a price-sensitive market segment, boosting brand exposure among target consumers, or providing additional incentives to move excess inventory or counteract competitors. These methods include buying allowances, buy-back allowances, scan-back allowances, merchandise allowances, cooperative advertising, dealer listings, free merchandise, dealer loaders, premium or push money, and sales contests.

Trade Allowances

Many manufacturers offer trade allowances to encourage resellers to carry a product or stock more of it. One such trade allowance is a **buying allowance**, a temporary price reduction offered to resellers for purchasing specified quantities of a product. A soap producer, for example, might give retailers \$1 for each case of soap purchased. Such



Marketing Debate

Drug Companies Give Billions in Free Samples

ISSUE: *Should drug companies be allowed to distribute free drug samples?*

Drug companies often distribute free samples to doctors as a form of promotion. Pfizer provided \$2.7 billion in free samples during a one-year period. Concerned medical professionals believe that brand-name samples encourage doctors to prescribe them in place of more affordable generic alternatives or more appropriate medicines. Free samples also bypass the pharmacist, which is risky because pharmacists possess databases to detect how the sample might interact with other prescriptions. Drug companies claim samples give doctors firsthand knowledge of new treatments. Additionally, a study revealed that even after free samples are banned, there is only a slight reduction in the brand-name drugs prescribed. Is it responsible for drug companies to encourage trials through free samples?^d

consumer sweepstakes

A sales promotion in which entrants submit their names for inclusion in a drawing for prizes

trade sales promotion methods

Methods intended to persuade wholesalers and retailers to carry a producer's products and market them aggressively

buying allowance

A temporary price reduction to resellers for purchasing specified quantities of a product

Consumer Sweepstakes

Customers will submit their names in company sweepstakes promotions for opportunities to win prizes and other rewards.



AP Images/PRNewsFoto/Toyo Tire U.S.A. Corp.

offers provide an incentive for resellers to handle new products, achieve temporary price reductions, or stimulate purchase of items in larger-than-normal quantities. The buying allowance, which takes the form of money, yields profits to resellers and is simple and straightforward. There are no restrictions on how resellers use the money, which increases the method's effectiveness. One drawback of buying allowances is that customers may buy "forward"—that is, buy large amounts that keep them supplied for many months. Another problem is that competitors may match (or beat) the reduced price, which can lower profits for all sellers.

A **buy-back allowance** is a sum of money that a producer gives to a reseller for each unit the reseller buys after an initial promotional deal is over. This method is a secondary incentive in which the total amount of money resellers receive is proportional to their purchases during an initial consumer promotion, such as a coupon offer. Buy-back allowances foster cooperation during an initial sales promotion effort and stimulate repurchase afterward. The main disadvantage of this method is expense.

A **scan-back allowance** is a manufacturer's reward to retailers based on the number of pieces moved through the retailers' scanners during a specific time period. To participate in scan-back programs, retailers are usually expected to pass along savings to consumers through special pricing. Scan-backs are becoming widely used by manufacturers because they link trade spending directly to product movement at the retail level.

A **merchandise allowance** is a manufacturer's agreement to pay resellers certain amounts of money for providing promotional efforts like advertising or point-of-purchase displays. This method is best suited to high-volume, high-profit, easily handled products. A drawback is that some retailers perform activities at a minimally acceptable level simply to obtain allowances. Before paying retailers, manufacturers usually verify their performance. Manufacturers hope that retailers' additional promotional efforts will yield substantial sales increases.

buy-back allowance

A sum of money given to a reseller for each unit bought after an initial promotion deal is over

scan-back allowance

A manufacturer's reward to retailers based on the number of pieces scanned

merchandise allowance

A manufacturer's agreement to pay resellers certain amounts of money for providing special promotional efforts, such as setting up and maintaining a display

Cooperative Advertising and Dealer Listings

Cooperative advertising is an arrangement in which a manufacturer agrees to pay a certain amount of a retailer's media costs for advertising the manufacturer's products. The amount allowed is usually based on the quantities purchased. As with merchandise allowances, a retailer must show proof that advertisements did appear before the manufacturer pays the agreed-on portion of the advertising costs. These payments give retailers additional funds for advertising. Some retailers exploit cooperative-advertising agreements by crowding too many products into one advertisement. Not all available cooperative-advertising dollars are used. Some retailers cannot afford to advertise, while others can afford it but do not want to advertise. A large proportion of all cooperative-advertising dollars is spent on newspaper advertisements.

Dealer listings are advertisements promoting a product and identifying participating retailers that sell the product. Dealer listings can influence retailers to carry the product, build traffic at the retail level, and encourage consumers to buy the product at participating dealers.

Free Merchandise and Gifts

Manufacturers sometimes offer **free merchandise** to resellers that purchase a stated quantity of products. Occasionally, free merchandise is used as payment for allowances provided through other sales promotion methods. To avoid handling and bookkeeping problems, the "free" merchandise usually takes the form of a reduced invoice.

A **dealer loader** is a gift to a retailer that purchases a specified quantity of merchandise. Dealer loaders are often used to obtain special display efforts from retailers by offering essential display parts as premiums. For example, a manufacturer might design a display that includes a sterling silver tray as a major component and give the tray to the retailer. Marketers use dealer loaders to obtain new distributors and push larger quantities of goods.

Premium Money

Premium money (push money) is additional compensation offered by the manufacturer to salespeople as an incentive to push a line of goods. This method is appropriate when personal selling is an important part of the marketing effort; it is not effective for promoting products sold through self-service. Premium money often helps a manufacturer obtain a commitment from the sales force, but it can be very expensive.

Sales Contest

A **sales contest** is designed to motivate distributors, retailers, and sales personnel by recognizing outstanding achievements. To be effective, this method must be equitable for all individuals involved. One advantage is that it can achieve participation at all distribution levels. Positive effects may be temporary, however, and prizes are usually expensive.

cooperative advertising

An arrangement in which a manufacturer agrees to pay a certain amount of a retailer's media costs for advertising the manufacturer's products

dealer listings

Advertisements that promote a product and identify the names of participating retailers that sell the product

free merchandise

A manufacturer's reward given to resellers that purchase a stated quantity of products

dealer loader

A gift, often part of a display, given to a retailer that purchases a specified quantity of merchandise

premium money (push money)

Extra compensation to salespeople for pushing a line of goods

sales contest

A sales promotion method used to motivate distributors, retailers, and sales personnel through recognition of outstanding achievements

CHAPTER REVIEW

1 Understand the major purposes of personal selling.

Personal selling is the process of informing customers and persuading them to purchase products through paid personal communication in an exchange situation. The three general purposes of personal selling are finding prospects, persuading them to buy, and keeping customers satisfied.

2 Describe the basic steps in the personal selling process.

Many salespeople, either consciously or unconsciously, move through a general selling process as they sell products. In prospecting, the salesperson develops a database of potential customers. Before contacting prospects, the salesperson conducts a preapproach that involves finding and analyzing information about prospects and their needs. The approach is the manner in which the salesperson contacts potential customers. During the sales presentation, the salesperson must attract and hold the prospect's attention to stimulate interest and desire for the product. If possible, the salesperson should handle objections as they arise. During the closing, the salesperson asks the prospect to buy the product or products. After a successful closing, the salesperson must follow up the sale.

3 Identify the types of sales force personnel.

In developing a sales force, marketing managers consider which types of salespeople will sell the firm's products most effectively. The three classifications of salespeople are order getters, order takers, and support personnel. Order getters inform both current customers and new prospects and persuade them to buy. Order takers seek repeat sales and fall into two categories: inside order takers and field order takers. Sales support personnel facilitate selling, but their duties usually extend beyond making sales.

4 Recognize new types of personal selling.

The three types of support personnel are missionary, trade, and technical salespeople. The roles of salespeople are changing, resulting in an increased focus on team selling and relationship selling. Team selling involves the salesperson joining with people from the firm's financial, engineering, and

other functional areas. Relationship selling involves building mutually beneficial long-term associations with a customer through regular communications over prolonged periods of time.

5 Understand sales management decisions and activities.

Sales force management is an important determinant of a firm's success because the sales force is directly responsible for generating the organization's sales revenue. Major decision areas and activities are establishing sales force objectives; determining sales force size; recruiting, selecting, training, compensating, and motivating salespeople; managing sales territories; and controlling and evaluating sales force performance.

Sales objectives should be stated in precise, measurable terms and specify the time period and geographic areas involved. The size of the sales force must be adjusted occasionally because a firm's marketing plans change along with markets and forces in the marketing environment.

Recruiting and selecting salespeople involve attracting and choosing the right type of salesperson to maintain an effective sales force. When developing a training program, managers must consider a variety of dimensions, such as who should be trained, what should be taught, and how training should occur. Compensation of salespeople involves formulating and administering a compensation plan that attracts, motivates, and retains the right types of salespeople. Motivated salespeople should translate into high productivity. Managing sales territories focuses on such factors as size, shape, routing, and scheduling. To control and evaluate sales force performance, sales managers use information obtained through salespeople's call reports, customer feedback, and invoices.

6 Explain what sales promotion activities are and how they are used.

Sales promotion is an activity or a material (or both) that acts as a direct inducement, offering added value or incentive for the product to resellers, salespeople, or consumers. Marketers use sales promotion to identify and attract new customers, introduce new products, and increase reseller inventories.

7 Explore specific consumer sales promotion methods.

Sales promotion techniques fall into two general categories: consumer and trade. Consumer sales promotion methods encourage consumers to patronize specific stores or try a particular product. These sales promotion methods include coupons; cents-off offers; money refunds and rebates; frequent-user incentives; point-of-purchase displays; demonstrations; free samples and premiums; and consumer contests, games, and sweepstakes.

8 Explore trade sales promotion methods.

Trade sales promotion techniques can motivate resellers to handle a manufacturer's products and market them aggressively. These sales promotion techniques include buying allowances, buy-back allowances, scan-back allowances, merchandise allowances, cooperative advertising, dealer listings, free merchandise, dealer loaders, premium (or push) money, and sales contests.

ONLINE RESOURCES

Please visit the student website at www.cengagebrain.com for quizzes and games that will help you prepare for exams and help achieve the grade you want.

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ISSUES FOR DISCUSSION AND REVIEW

1. What is personal selling? How does personal selling differ from other types of promotional activities?
2. What are the primary purposes of personal selling?
3. Identify the elements of the personal selling process. Must a salesperson include all these elements when selling a product to a customer? Why or why not?
4. How does a salesperson find and evaluate prospects? Do you consider any of these methods to be ethically questionable? Explain.
5. Are order getters more aggressive or creative than order takers? Why or why not?
6. Why are team selling and relationship selling becoming more prevalent?

7. Identify several characteristics of effective sales objectives.
8. How should a sales manager establish criteria for selecting sales personnel? What do you think are the general characteristics of a good salesperson?
9. What major issues or questions should management consider when developing a training program for the sales force?
10. Explain the major advantages and disadvantages of the three basic methods of compensating salespeople. In general, which method would you prefer? Why?
11. What major factors should be taken into account when designing the size and shape of a sales territory?
12. How does a sales manager, who cannot be with each salesperson in the field on a daily basis, control the performance of sales personnel?
13. What is sales promotion? Why is it used?
14. For each of the following, identify and describe three techniques and give several examples: (a) consumer sales promotion methods and (b) trade sales promotion methods.
15. What types of sales promotion methods have you observed recently? Comment on their effectiveness.

MARKETING APPLICATIONS

1. Briefly describe an experience you have had with a salesperson at a clothing store or an automobile dealership. Describe the steps the salesperson used. Did the salesperson skip any steps? What did the salesperson do well? Not so well? Would you describe the salesperson as an order getter, an order taker, or a support salesperson? Why? Did the salesperson perform more than one of these functions?
2. Leap Athletic Shoe Inc., a newly formed company, is in the process of developing a sales strategy. Market researchers have determined that sales management should segment the market into five regional territories. The sales potential for the North region is \$1.2 million; for the West region, \$1 million; for the Central region, \$1.3 million; for the South Central region, \$1.1 million; and for the Southeast region, \$1 million. The firm wishes to maintain some control over the training and sales processes because of the unique features of its new product line, but Leap marketers realize that the salespeople need to be fairly aggressive in their efforts to break into these markets. They would like to provide the incentive needed for the extra selling effort. What type of sales force compensation method would you recommend to Leap? Why?
3. Consumer sales promotions aim to increase sales of a particular retail store or product. Identify a familiar type of retail store or product. Recommend at least three sales promotion methods that could effectively promote the store or product. Explain why you would use these methods.
4. Producers use trade sales promotions to encourage resellers to promote their products more effectively. Identify which method or methods of sales promotion a producer might use in the following situations, and explain why the method would be appropriate.
 - a. A golf ball manufacturer wants to encourage retailers to add a new type of golf ball to current product offerings.
 - b. A life insurance company wants to increase sales of its universal life products, which have been lagging recently (the company has little control over sales activities).
 - c. A light bulb manufacturer with an overproduction of 100-watt bulbs wants to encourage its grocery store chain resellers to increase their bulb inventories.

ONLINE EXERCISE

5. TerrAlign offers consulting services and software products designed to help a firm maximize control and deployment of its field sales representatives. See how the company provides sales territory management solutions by visiting www.terralign.com.
 - a. Identify three features of TerrAlign software that are likely to benefit salespeople.
 - b. Identify three features of TerrAlign software that are likely to benefit sales managers.
 - c. Why might field sales professionals object to the use of software from TerrAlign?

DEVELOPING YOUR MARKETING PLAN

When developing its marketing strategy, a company must consider the different forms of communication that are necessary to reach a variety of customers. Several types of promotion may be required. Knowledge of the advantages and disadvantages of each promotional element is necessary when developing the marketing plan. Consider the information in this chapter when evaluating your promotional mix:

1. Review the various types of salespeople described in this chapter. Given your promotional objectives (from Chapter 16), do any of these types of salespeople have a place in your promotional plan?
2. Identify the resellers in your distribution channel. Discuss the role that trade sales promotions to these resellers could play in the development of your promotional plan.
3. Evaluate each type of consumer sales promotion as it relates to accomplishing your promotional objectives.

The information obtained from these questions should assist you in developing various aspects of your marketing plan found in the *Interactive Marketing Plan* exercise at www.cengagebrain.com.



VIDEO CASE

MURRAY'S CHEESE ACHIEVES SUCCESS THROUGH PERSONAL SELLING

For Murray's Cheese, personal selling is the driving force behind its success. The business has retail sales of \$2,500 per square foot and a growth rate of 15 to 20 percent per year at its main store in Greenwich Village, New York. It also recently established a partnership with the supermarket giant Kroger to bring Murray's customer-friendly environment to select Kroger supermarkets. Murray's views personal selling as a core competency that sets itself apart from the competition. The key is to inform customers and persuade them to purchase products in a store environment. Murray's sales representatives understand the importance of a quick presentation, overcoming objections, and closing the sale. Because Murray's wants its customers to be repeat buyers, there is an attempt to listen to customers, gain an understanding of their interests, and try to find the right product to satisfy their needs.

Murray's Cheese began in 1940 as a wholesale butter and egg shop owned by Jewish Spanish Civil War Veteran Murray Greenberg. When the current president Rob Kaufelt purchased the shop in 1991, the store was little more than a local hole-in-the-wall. Kaufelt and his staff made the decision to focus on high-quality gourmet cheeses from around the world. Today, people come from all over to sample Murray's cheeses as well as

to take classes or attend its Cheese U boot camp to learn about cheese. Although Murray's extended its product line to include gourmet meats, crackers, olives, and dried fruit, cheese remains its core product. In fact, Murray's Cheese has been voted by *Forbes* as "the best cheese shop." Its success prompted Kroger to seek it out as a partner in its supermarkets. Murray's Cheese shops can now be found in different Kroger supermarkets throughout the country.

The cost that Murray's Cheese spent on advertising to become so successful: zero dollars. Instead of advertising, the company relies on in-store salespersons providing customer service and creating positive word-of-mouth communication to promote and to secure its reputation. When training its cheesemongers, the company recruits those who are passionate about both cheese and people. The company sets qualifications before beginning to recruit and identifies a set of traits characterizing effective salespeople to become cheesemongers. All customers who enter Murray's Greenwich Village store get to taste free samples of cheese before they buy it. This sampling creates an image of Murray's Cheese as a customer-friendly company. Customer relationships are so integral to Murray's that its cheesemongers taste the cheese with the customers. In this way,

Murray's in-store sales force educates themselves about the cheeses they are selling and creates a valuable experience where the customer feels appreciated. By creating this unique experience, Murray's often succeeds in getting customers to purchase more products at once and to make repeat purchases.

This positive customer environment is what Murray's Cheese hopes to bring to Kroger's. Those Kroger employees who sell Murray's cheeses undergo extensive training beforehand. Murray's even created a 300-page cheese service guide for these recruits. Kroger customers seem to appreciate the more attentive customer service they receive in these Murray-branded shops. In a pilot program, where three Murray's Cheese shops replaced Kroger cheese departments, sales increased 50 to 100 percent. It was such a success that under the new partnership, Murray's Cheese will open 50 Murray's shops in Kroger supermarkets within three years.

Personal selling does not always have to be about traveling throughout sales territories calling on prospects. Murray's in-store cheesemongers make and close sales doing what they do best: educating customers and sharing cheese. With Kroger's success at promotion and Murray's strengths in personal selling, it looks to be a win-win situation for both partners. Murray's motivated cheesemongers help to satisfy the needs of their customers and achieve personal goals.⁴⁶

QUESTIONS FOR DISCUSSION

1. How would you explain the sales presentation that is most effective for selling Murray's cheese products?
2. How would you apply the concept of relationship selling to building long-term customers at Murray's Cheese?
3. Do you think that Murray's Cheese salespeople need extensive motivation and training?

GLOSSARY

A

accessibility The ability to obtain digital information

accessory equipment Equipment that does not become part of the final physical product but is used in production or office activities

addressability The ability of a marketer to identify customers before they make a purchase

advertising Paid nonpersonal communication about an organization and its products transmitted to a target audience through mass media

advertising appropriation The advertising budget for a specific time period

advertising campaign The creation and execution of a series of advertisements to communicate with a particular target audience

advertising platform Basic issues or selling points to be included in an advertising campaign

advocacy advertising Advertising that promotes a company's position on a public issue

aesthetic modifications Changes to the sensory appeal of a product

agents Intermediaries that represent either buyers or sellers on a permanent basis

aided recall test A posttest that asks respondents to identify recent ads and provides clues to jog their memories

allowance A concession in price to achieve a desired goal

approach The manner in which a salesperson contacts a potential customer

arbitrary approach Budgeting for an advertising campaign as specified by a high-level executive in the firm

artwork An advertisement's illustrations and layout

Asia-Pacific Economic Cooperation (APEC) An alliance that promotes open trade and economic and technical cooperation among member nations throughout the world

atmospherics The physical elements in a store's design that appeal to consumers' emotions and encourage buying

attitude An individual's enduring evaluation of feelings about and behavioral tendencies toward an object or idea

attitude scale A means of measuring consumer attitudes by gauging the intensity of individuals' reactions to adjectives, phrases, or sentences about an object

automatic vending The use of machines to dispense products

average fixed cost The fixed cost per unit produced

average total cost The sum of the average fixed cost and the average variable cost

average variable cost The variable cost per unit produced

B

bait pricing Pricing an item in a product line low with the intention of selling a higher-priced item in the line

balance of trade The difference in value between a nation's exports and its imports

barter The trading of products

base-point pricing Geographic pricing that combines factory price and freight charges from the base point nearest the buyer

benchmarking Comparing the quality of the company's goods, services, or processes with that of its best-performing competitors

benefit segmentation The division of a market according to benefits that consumers want from the product

Better Business Bureau A local, nongovernmental regulatory agency, supported by local businesses, that helps settle problems between customers and specific business firms

blogs Web-based journals (short for "weblogs") in which writers editorialize and interact with other Internet users

brand A name, term, design, symbol, or any other feature that identifies one marketer's product as distinct from those of other marketers

brand competitors Firms that market products with similar features and benefits to the same customers at similar prices

brand equity The marketing and financial value associated with a brand's strength in a market

brand extension Using an existing brand to brand a new product in a different product category

brand insistence The degree of brand loyalty in which a customer strongly prefers a specific brand and will accept no substitute

brand licensing An agreement whereby a company permits another organization to use its brand on other products for a licensing fee

brand loyalty A customer's favorable attitude toward a specific brand

brand manager The person responsible for a single brand

brand mark The part of a brand not made up of words

brand name The part of a brand that can be spoken

brand preference The degree of brand loyalty in which a customer prefers one brand over competitive offerings

brand recognition A customer's awareness that the brand exists and is an alternative purchase

breakdown approach Measuring company sales potential based on a general economic forecast for a specific period and the market potential derived from it

break-even point The point at which the costs of producing a product equal the revenue made from selling the product

brokers Intermediaries that bring buyers and sellers together temporarily

buildup approach Measuring company sales potential by estimating how much of a product a potential buyer in a specific geographic area will purchase in a given period, multiplying the estimate by the number of potential buyers, and adding the totals of all the geographic areas considered

bundle pricing Packaging together two or more complementary products and selling them at a single price

business (organizational) buying behavior The purchase behavior of producers, government units, institutions, and resellers

business analysis Evaluating the potential contribution of a product idea to the firm's sales, costs, and profits

business cycle A pattern of economic fluctuations that has four stages: prosperity, recession, depression, and recovery

business market Individuals, organizations, or groups that purchase a specific kind of product for resale, direct use in producing other products, or use in general daily operations

business products Products bought to use in an organization's operations, to resell, or to make other products

business services The intangible products that many organizations use in their operations

buy-back allowance A sum of money given to a reseller for each unit bought after an initial promotion deal is over

buying allowance A temporary price reduction to resellers for purchasing specified quantities of a product

buying behavior The decision processes and actions of people involved in buying and using products

buying center The people within an organization who make business purchase decisions

buying power Resources, such as money, goods, and services, that can be traded in an exchange

buzz marketing An attempt to incite publicity and public excitement surrounding a product through a creative event



captioned photograph A photograph with a brief description of its contents

captive pricing Pricing the basic product in a product line low, while pricing related items higher

cash discounts Price reductions given to buyers for prompt payment or cash payment

cash-and-carry wholesalers Limited-service wholesalers whose customers pay cash and furnish transportation

catalog marketing A type of marketing in which an organization provides a catalog from which customers make selections and place orders by mail, telephone, or the Internet

category killer A very large specialty store that concentrates on a major product category and competes on the basis of low prices and product availability

category management A retail strategy of managing groups of similar, often substitutable products produced by different manufacturers

cause-related marketing The practice of linking products to a particular social cause on an ongoing or short-term basis

centralized organization A structure in which top-level managers delegate little authority to lower levels

cents-off offers Promotions that allow buyers to pay less than the regular price to encourage purchase

channel capacity The limit on the volume of information a communication channel can handle effectively

channel captain The dominant leader of a marketing channel or a supply channel

channel power The ability of one channel member to influence another member's goal achievement

client-based relationships Interactions that result in satisfied customers who use a service repeatedly over time

closing The stage in the personal selling process when the salesperson asks the prospect to buy the product

co-branding Using two or more brands on one product

codes of conduct Formalized rules and standards that describe what the company expects of its employees

coding process Converting meaning into a series of signs or symbols

cognitive dissonance A buyer's doubts shortly after a purchase about whether the decision was the right one

combination compensation plan Paying salespeople a fixed salary plus a commission based on sales volume

commercialization Deciding on full-scale manufacturing and marketing plans and preparing budgets

commission merchants Agents that receive goods on consignment from local sellers and negotiate sales in large, central markets

communication A sharing of meaning through the transmission of information

communications channel The medium of transmission that carries the coded message from the source to the receiver

community shopping centers Shopping centers with one or two department stores, some specialty stores, and convenience stores

company sales potential The maximum percentage of market potential that an individual firm within an industry can expect to obtain for a specific product

comparative advertising Compares the sponsored brand with one or more identified brands on the basis of one or more product characteristics

comparison discounting Setting a price at a specific level and comparing it with a higher price

competition Other firms that market products that are similar to or can be substituted for a firm's products in the same geographic area

competition-based pricing Pricing influenced primarily by competitors' prices

competition-matching approach Determining an advertising budget by trying to match competitors' advertising outlays

competitive advantage The result of a company matching a core competency to opportunities it has discovered in the marketplace

competitive advertising Tries to stimulate demand for a specific brand by promoting its features, uses, and advantages relative to competing brands

component parts Items that become part of the physical product and are either finished items ready for assembly or products that need little processing before assembly

concentrated targeting strategy A market segmentation strategy in which an organization targets a single market segment using one marketing mix

concept testing Seeking potential buyers' responses to a product idea

conclusive research Research designed to verify insights through objective procedures and to help marketers in making decisions

connectivity Use of digital networks to provide linkages between information providers and users

consideration set A group of brands within a product category that a buyer views as alternatives for possible purchase

consistency of quality The degree to which a product has the same level of quality over time

consumer buying behavior The decision processes and purchasing activities of people who purchase products for personal or household use and not for business purposes

consumer buying decision process A five-stage purchase decision process that includes problem recognition, information search, evaluation of alternatives, purchase, and postpurchase evaluation

consumer contests Sales promotion methods in which individuals compete for prizes based on their analytical or creative skills

consumer games Sales promotion methods in which individuals compete for prizes based primarily on chance

consumer jury A panel of a product's existing or potential buyers who pretest ads

consumer market Purchasers and household members who intend to consume or benefit from the purchased products and do not buy products to make profits

consumer misbehavior Behavior that violates generally accepted norms of a particular society.

consumer products Products purchased to satisfy personal and family needs

consumer sales promotion methods Sales promotion techniques that encourage consumers to patronize specific stores or try particular products

consumer socialization The process through which a person acquires the knowledge and skills to function as a consumer

consumer sweepstakes A sales promotion in which entrants submit their names for inclusion in a drawing for prizes

consumerism Organized efforts by individuals, groups, and organizations to protect consumers' rights

contract manufacturing The practice of hiring a foreign firm to produce a designated volume of the domestic firm's product or a component of it to specification; the final product carries the domestic firm's name

control Customers' abilities to regulate the information they view and the rate and sequence of their exposure to that information

convenience products Relatively inexpensive, frequently purchased items for which buyers exert minimal purchasing effort

convenience store A small self-service store that is open long hours and carries a narrow assortment of products, usually convenience items

cooperative advertising An arrangement in which a manufacturer agrees to pay a certain amount of a retailer's media costs for advertising the manufacturer's products

copy The verbal portion of advertisements

core competencies Things a company does extremely well, which sometimes give it an advantage over its competition

corporate strategy A strategy that determines the means for utilizing resources in the various functional areas to reach the organization's goals

cost comparison indicator A means of comparing the costs of advertising vehicles in a specific medium in relation to the number of people reached

cost-based pricing Adding a dollar amount or percentage to the cost of the product

cost-plus pricing Adding a specified dollar amount or percentage to the seller's cost

coupons Written price reductions used to encourage consumers to buy a specific product

crowdsourcing Refers to the way digital media can be used to outsource tasks to a large group of people

cultural relativism The concept that morality varies from one culture to another and that business practices are therefore differentially defined as right or wrong by particular cultures

culture The accumulation of values, knowledge, beliefs, customs, objects, and concepts that a society uses to cope with its environment and passes on to future generations

cumulative discounts Quantity discounts aggregated over a stated time period

customary pricing Pricing on the basis of tradition

customer advisory boards Small groups of actual customers who serve as sounding boards for new-product ideas and offer insights into their feelings and attitudes toward a firm's products and other elements of its marketing strategy

customer contact The level of interaction between provider and customer needed to deliver the service

customer forecasting survey A survey of customers regarding the types and quantities of products they intend to buy during a specific period

customer relationship management (CRM) Using information about customers to create marketing strategies that develop and sustain desirable customer relationships

customer services Human or mechanical efforts or activities that add value to a product

customers The purchasers of organizations' products; the focal point of all marketing activities

cycle analysis An analysis of sales figures for a three- to five-year period to ascertain whether sales fluctuate in a consistent, periodic manner

cycle time The time needed to complete a process

D

database A collection of information arranged for easy access and retrieval

dealer listings Advertisements that promote a product and identify the names of participating retailers that sell the product

dealer loader A gift, often part of a display, given to a retailer that purchases a specified quantity of merchandise

decentralized organization A structure in which decision-making authority is delegated as far down the chain of command as possible

decline stage The stage of a product's life cycle when sales fall rapidly

decoding process Converting signs or symbols into concepts and ideas

Delphi technique A procedure in which experts create initial forecasts, submit them to the company for averaging, and then refine the forecasts

demand curve A graph of the quantity of products expected to be sold at various prices if other factors remain constant

demand-based pricing Pricing based on the level of demand for the product

demonstrations Sales promotion methods a manufacturer uses temporarily

to encourage trial use and purchase of a product or to show how a product works

department stores Large retail organizations characterized by a wide product mix and organized into separate departments to facilitate marketing efforts and internal management

depth of product mix The average number of different product items offered in each product line

derived demand Demand for business products that stems from demand for consumer products

descriptive research Research conducted to clarify the characteristics of certain phenomena to solve a particular problem

differential pricing Charging different prices to different buyers for the same quality and quantity of product

differentiated targeting strategy A strategy in which an organization targets two or more segments by developing a marketing mix for each segment

digital marketing Uses all digital media, including the Internet and mobile and interactive channels, to develop communication and exchanges with customers

digital media Electronic media that function using digital codes; when we refer to digital media, we are referring to media available via computers, cellular phones, smartphones, and other digital devices that have been released in recent years

direct marketing The use of the telephone, Internet, and nonpersonal media to introduce products to customers, who can then purchase them via mail, telephone, or the Internet

direct ownership A situation in which a company owns subsidiaries or other facilities overseas

direct selling Marketing products to ultimate consumers through face-to-face sales presentations at home or in the workplace

direct-response marketing A type of marketing in which a retailer advertises a product and makes it available through mail or telephone orders

discount stores Self-service, general-merchandise stores that offer brand name and private brand products at low prices

discretionary income Disposable income available for spending and saving after an individual has purchased the basic necessities of food, clothing, and shelter

disposable income After-tax income

distribution The decisions and activities that make products available to customers when and where they want to purchase them

distribution centers Large, centralized warehouses that focus on moving rather than storing goods

drop shippers Limited-service wholesalers that take title to goods and negotiate sales but never actually take possession of products

dual distribution The use of two or more marketing channels to distribute the same products to the same target market

dumping Selling products at unfairly low prices

E

early adopters Careful choosers of new products

early majority Those adopting new products just before the average person

electronic data interchange (EDI) A computerized means of integrating order processing with production, inventory, accounting, and transportation

electronic marketing (e-marketing) The strategic process of distributing, promoting, pricing products, and discovering the desires of customers using digital media and digital marketing

embargo A government's suspension of trade in a particular product or with a given country

empowerment Giving customer-contact employees authority and responsibility to make marketing decisions without seeking approval of their supervisors

environmental analysis The process of assessing and interpreting the information gathered through environmental scanning

environmental scanning The process of collecting information about forces in the marketing environment

ethical issue An identifiable problem, situation, or opportunity requiring a choice among several actions that must be evaluated as right or wrong, ethical or unethical

European Union (EU) An alliance that promotes trade among its member countries in Europe

evaluative criteria Objective and subjective product characteristics that are important to a buyer

everyday low prices (EDLP) Pricing products low on a consistent basis

exchange controls Government restrictions on the amount of a particular currency that can be bought or sold

exchanges The provision or transfer of goods, services, or ideas in return for something of value

exclusive dealing A situation in which a manufacturer forbids an intermediary to carry products of competing manufacturers

exclusive distribution Using a single outlet in a fairly large geographic area to distribute a product

executive judgment A sales forecasting method based on the intuition of one or more executives

experimental research Research that allows marketers to make causal inferences about relationships

expert forecasting survey Sales forecasts prepared by experts outside the firm, such as economists, management consultants, advertising executives, or college professors

exploratory research Research conducted to gather more information about a problem or to make a tentative hypothesis more specific

exporting The sale of products to foreign markets

extended decision making A consumer problem-solving process employed when purchasing unfamiliar, expensive, or infrequently bought products

external customers Individuals who patronize a business—the familiar definition of “customers”

external reference price A comparison price provided by others

external search An information search in which buyers seek information from sources other than their memories



family branding Branding all of a firm's products with the same name

family packaging Using similar packaging for all of a firm's products or packaging that has one common design element

feature article A manuscript of up to 3,000 words prepared for a specific publication

Federal Trade Commission (FTC) An agency that regulates a variety of business practices and curbs false advertising, misleading pricing, and deceptive packaging and labeling

feedback The receiver's response to a decoded message

fixed costs Costs that do not vary with changes in the number of units produced or sold

F.O.B. destination A price indicating the producer is absorbing shipping costs

F.O.B. factory The price of merchandise at the factory before shipment

focus-group interview An interview that is often conducted informally, without a structured questionnaire, in small groups of 8 to 12 people, to observe interaction when members are exposed to an idea or a concept

franchising An arrangement in which a supplier (franchiser) grants a dealer (franchisee) the right to sell products in exchange for some type of consideration

free merchandise A manufacturer's reward given to resellers that purchase a stated quantity of products

free samples Samples of a product given out to encourage trial and purchase

freight absorption pricing Absorption of all or part of actual freight costs by the seller

freight forwarders Organizations that consolidate shipments from several firms into efficient lot sizes

full-service wholesalers Merchant wholesalers that perform the widest range of wholesaling functions

functional modifications Changes affecting a product's versatility, effectiveness, convenience, or safety



General Agreement on Tariffs and Trade (GATT) An agreement among nations to reduce worldwide tariffs and increase international trade

general-merchandise retailer A retail establishment that offers a variety of product lines that are stocked in considerable depth

general-merchandise wholesalers Full-service wholesalers with a wide product mix but limited depth within product lines

generic brands Brands indicating only the product category

generic competitors Firms that provide very different products that solve the same problem or satisfy the same basic customer need

geodemographic segmentation A method of market segmentation that clusters people in zip code areas and smaller neighborhood units based on lifestyle and demographic information

geographic pricing Reductions for transportation and other costs related to the physical distance between buyer and seller

globalization The development of marketing strategies that treat the entire world (or its major regions) as a single entity

good A tangible physical entity

government markets Federal, state, county, or local governments that buy goods and services to support their internal operations and provide products to their constituencies

green marketing A strategic process involving stakeholder assessment to create meaningful long-term relationships with customers while maintaining, supporting, and enhancing the natural environment

gross domestic product (GDP) The market value of a nation's total output of goods and services for a given period; an overall measure of economic standing

growth stage The stage of a product's life cycle when sales rise rapidly and profits reach a peak and then start to decline

H

heterogeneity Variation in quality

heterogeneous market A market made up of individuals or organizations with diverse needs for products in a specific product class

homogeneous market A market in which a large proportion of customers have similar needs for a product

horizontal channel integration Combining organizations at the same level of operation under one management

hypermarkets Stores that combine supermarket and discount store shopping in one location

hypothesis An informed guess or assumption about a certain problem or set of circumstances

I

idea A concept, philosophy, image, or issue

idea generation Seeking product ideas to achieve objectives

illustrations Photos, drawings, graphs, charts, and tables used to spark audience interest in an advertisement

import tariff A duty levied by a nation on goods bought outside its borders and brought into the country

importing The purchase of products from a foreign source

impulse buying An unplanned buying behavior resulting from a powerful urge to buy something immediately

in-home (door-to-door)

interview A personal interview that takes place in the respondent's home

individual branding A policy of naming each product differently

industrial distributor An independent business organization that takes title to industrial products and carries inventories

inelastic demand Demand that is not significantly altered by a price increase or decrease

information inputs Sensations received through sight, taste, hearing, smell, and touch

innovators First adopters of new products

inseparability Being produced and consumed at the same time

installations Facilities and nonportable major equipment

institutional advertising Advertising that promotes organizational images, ideas, and political issues

institutional markets Organizations with charitable, educational, community, or other nonbusiness goals

intangibility A service that is not physical and cannot be touched

integrated marketing communications Coordination of promotion and other marketing efforts for maximum informational and persuasive impact

intended strategy The strategy the organization decides on during the planning phase and wants to use

intensive distribution Using all available outlets to distribute a product

interactivity Allows customers to express their needs and wants directly to the firm in response to its marketing communications

intermodal transportation Two or more transportation modes used in combination

internal customers The company's employees

internal marketing A management philosophy that coordinates internal exchanges between the organization and its employees to achieve successful external exchanges between the organization and its customers

internal reference price A price developed in the buyer's mind through experience with the product

internal search An information search in which buyers search their memories for information about products that might solve their problem

international marketing Developing and performing marketing activities across national boundaries

introduction stage The initial stage of a product's life cycle—its first appearance in the marketplace—when sales start at zero and profits are negative

inventory management Developing and maintaining adequate assortments of products to meet customers' needs

J

joint demand Demand involving the use of two or more items in combination to produce a product

joint venture A partnership between a domestic firm and a foreign firm or government

just-in-time (JIT) An inventory-management approach in which supplies arrive just when needed for production or resale

K

kinesic communication Communicating through the movement of head, eyes, arms, hands, legs, or torso

L

labeling Providing identifying, promotional, or other information on package labels

laggards The last adopters, who distrust new products

late majority Skeptics who adopt new products when they feel it is necessary

layout The physical arrangement of an advertisement's illustration and copy

learning Changes in an individual's thought processes and behavior caused by information and experience

level of involvement An individual's degree of interest in a product and the importance of the product for that person

level of quality The amount of quality a product possesses

licensing An alternative to direct investment that requires a licensee to pay commissions or royalties on sales or supplies used in manufacturing

lifestyle An individual's pattern of living expressed through activities, interests, and opinions

lifestyle shopping center A type of shopping center that is typically open air and features upscale specialty, dining, and entertainment stores

limited decision making A consumer problem-solving process used when purchasing products occasionally or needing information about an unfamiliar brand in a familiar product category

limited-line wholesalers Full-service wholesalers that carry only a few product lines but many products within those lines

limited-service wholesalers Merchant wholesalers that provide some services and specialize in a few functions

line extension Development of a product that is closely related to existing products in the line but meets different customer needs

logistics management Planning, implementing, and controlling the efficient and effective flow and storage of products and information from the point of origin to consumption to meet customers' needs and wants

M

mail survey A research method in which respondents answer a questionnaire sent through the mail

mail-order wholesalers Limited-service wholesalers that sell products through catalogs

manufacturer brands Brands initiated by producers

manufacturers' agents Independent intermediaries that represent two or more sellers and usually offers customers complete product lines

marginal cost (MC) The extra cost incurred by producing one more unit of a product

marginal revenue (MR) The change in total revenue resulting from the sale of an additional unit of a product

market A group of individuals and/or organizations that have needs for products in a product class and have the ability, willingness, and authority to purchase those products

market density The number of potential customers within a unit of land area

market growth/market share matrix A helpful business tool, based on the philosophy that a product's market growth rate and its market share are important considerations in determining its marketing strategy

market manager The person responsible for managing the marketing activities that serve a particular group of customers

market opportunity A combination of circumstances and timing that permits an organization to take action to reach a particular target market

market orientation An organizationwide commitment to researching and responding to customer needs

market potential The total amount of a product that customers will purchase within a specified period at a specific level of industrywide marketing activity

market segment Individuals, groups, or organizations sharing one or more similar characteristics that cause them to have similar product needs

market segmentation The process of dividing a total market into groups with relatively similar product needs to design a marketing mix that matches those needs

market share The percentage of a market that actually buys a specific product from a particular company

market test Making a product available to buyers in one or more test areas and measuring purchases and consumer responses to marketing efforts

marketing The process of creating, distributing, promoting, and pricing goods, services, and ideas to facilitate satisfying exchange relationships with customers and to develop and maintain favorable relationships with stakeholders in a dynamic environment

marketing channel A group of individuals and organizations that direct

the flow of products from producers to customers within the supply chain

marketing citizenship The adoption of a strategic focus for fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected by stakeholders

marketing concept A managerial philosophy that an organization should try to satisfy customers' needs through a coordinated set of activities that also allows the organization to achieve its goals

marketing control process Establishing performance standards, evaluating actual performance by comparing it with established standards, and reducing the differences between desired and actual performance

marketing decision support system (MDSS) Customized computer software that aids marketing managers in decision making

marketing environment The competitive, economic, political, legal and regulatory, technological, and sociocultural forces that surround the customer and affect the marketing mix

marketing ethics Principles and standards that define acceptable marketing conduct as determined by various stakeholders

marketing implementation The process of putting marketing strategies into action

marketing information system (MIS) A framework for managing and structuring information gathered regularly from sources inside and outside the organization

marketing intermediaries Middlemen that link producers to other intermediaries or ultimate consumers through contractual arrangements or through the purchase and resale of products

marketing management The process of planning, organizing, implementing, and controlling marketing activities to facilitate exchanges effectively and efficiently

marketing mix Four marketing activities—product, pricing, distribution, and promotion—that a firm can control to meet the needs of customers within its target market

marketing objective A statement of what is to be accomplished through marketing activities

marketing plan A written document that specifies the activities to be performed to implement and control the organization's marketing activities

marketing planning The systematic process of assessing marketing opportunities and resources, determining marketing objectives, defining marketing strategies, and establishing guidelines for implementation and control of the marketing program

marketing research The systematic design, collection, interpretation, and reporting of information to help marketers solve specific marketing problems or take advantage of marketing opportunities

marketing strategy A plan of action for identifying and analyzing a target market and developing a marketing mix to meet the needs of that market

markup pricing Adding to the cost of the product a predetermined percentage of that cost

Maslow's hierarchy of needs The five levels of needs that humans seek to satisfy, from most to least important

materials handling Physical handling of tangible goods, supplies, and resources

maturity stage The stage of a product's life cycle when the sales curve peaks and starts to decline as profits continue to fall

media plan A plan that specifies the media vehicles to be used and the schedule for running advertisements

megacarriers Freight transportation firms that provide several modes of shipment

merchandise allowance A manufacturer's agreement to pay resellers certain amounts of money for providing special promotional efforts, such as setting up and maintaining a display

merchant wholesalers Independently owned businesses that take title to goods, assume ownership risks, and buy and resell products to other wholesalers, business customers, or retailers

micromarketing An approach to market segmentation in which

organizations focus precise marketing efforts on very small geographic markets

mission statement A long-term view, or vision, of what the organization wants to become

missionary salespeople Support salespeople, usually employed by a manufacturer, who assist the producer's customers in selling to their own customers

modified rebuy purchase A new-task purchase that is changed on subsequent orders or when the requirements of a straight rebuy purchase are modified

money refunds Sales promotion techniques that offer consumers a specified amount of money when they mail in a proof of purchase, usually for multiple product purchases

monopolistic competition A competitive structure in which a firm has many potential competitors and tries to develop a marketing strategy to differentiate its product

monopoly A competitive structure in which an organization offers a product that has no close substitutes, making that organization the sole source of supply

motive An internal energizing force that directs a person's behavior toward satisfying needs or achieving goals

MRO supplies Maintenance, repair, and operating items that facilitate production and operations but do not become part of the finished product

multinational enterprise A firm that has operations or subsidiaries in many countries

multiple sourcing An organization's decision to use several suppliers

multiple-unit pricing Packaging together two or more identical products and selling them at a single price

N

National Advertising Review Board (NARB) A self-regulatory unit that considers challenges to issues raised by the National Advertising Division (an arm of the Council of Better Business Bureaus) about an advertisement

negotiated pricing Establishing a final price through bargaining between seller and customer

neighborhood shopping centers Shopping centers usually consisting of several small convenience and specialty stores

new-product development process A seven-phase process for introducing products

news release A short piece of copy publicizing an event or a product

new-task purchase An organization's initial purchase of an item to be used to perform a new job or solve a new problem

noise Anything that reduces a communication's clarity and accuracy

noncumulative discounts Onetime price reductions based on the number of units purchased, the dollar value of the order, or the product mix purchased

nonprice competition Emphasizing factors other than price to distinguish a product from competing brands

nonprobability sampling A sampling technique in which there is no way to calculate the likelihood that a specific element of the population being studied will be chosen

nonstore retailing The selling of products outside the confines of a retail facility

North American Free Trade Agreement (NAFTA) An alliance that merges Canada, Mexico, and the United States into a single market

North American Industry Classification System (NAICS) An industry classification system that generates comparable statistics among the United States, Canada, and Mexico

O

objective-and-task approach Budgeting for an advertising campaign by first determining its objectives and then calculating the cost of all the tasks needed to attain them

odd-even pricing Ending the price with certain numbers to influence buyers' perceptions of the price or product

off-price retailers Stores that buy manufacturers' seconds, overruns, returns, and off-season merchandise for resale to consumers at deep discounts

offshore outsourcing The practice of contracting with an organization to perform some or all business functions in a country other than the country in which the product or service will be sold

offshoring The practice of moving a business process that was done domestically at the local factory to a foreign country, regardless of whether the production accomplished in the foreign country is performed by the local company (e.g., in a wholly owned subsidiary) or a third party (e.g., subcontractor)

oligopoly A competitive structure in which a few sellers control the supply of a large proportion of a product

online fraud Any attempt to conduct fraudulent activities online, including deceiving consumers into releasing personal information

online retailing Retailing that makes products available to buyers through computer connections

online survey A research method in which respondents answer a questionnaire via e-mail or on a website

on-site computer interview
A variation of the shopping mall intercept interview in which respondents complete a self-administered questionnaire displayed on a computer monitor

operations management The total set of managerial activities used by an organization to transform resource inputs into products, services, or both

opinion leader A member of an informal group who provides information about a specific topic to other group members

order getters Salespeople who sell to new customers and increase sales to current customers

order processing The receipt and transmission of sales order information

order takers Salespeople who primarily seek repeat sales

outsourcing The practice of contracting noncore operations with an organization that specializes in that operation



patronage motives Motives that influence where a person purchases products on a regular basis

penetration pricing Setting prices below those of competing brands to penetrate a market and gain a significant market share quickly

percent-of-sales approach
Budgeting for an advertising campaign by multiplying the firm's past and expected sales by a standard percentage

perception The process of selecting, organizing, and interpreting information inputs to produce meaning

performance standard An expected level of performance against which actual performance can be compared

periodic discounting Temporary reduction of prices on a patterned or systematic basis

perishability The inability of unused service capacity to be stored for future use

personal interview survey A research method in which participants respond to survey questions face-to-face

personal selling Paid personal communication that attempts to inform customers and persuade them to buy products in an exchange situation

personality A set of internal traits and distinct behavioral tendencies that result in consistent patterns of behavior in certain situations

physical distribution Activities used to move products from producers to consumers and other end users

pioneer advertising Advertising that tries to stimulate demand for a product category rather than a specific brand by informing potential buyers about the product

pioneer promotion Promotion that informs consumers about a new product

podcast Audio or video file that can be downloaded from the Internet with a subscription that automatically delivers new content to listening devices or personal computers; podcasts offer the benefit of convenience, giving users the ability to listen to or view content when and where they choose

point-of-purchase (POP) materials Signs, window displays, display racks, and similar devices used to attract customers

population All the elements, units, or individuals of interest to researchers for a specific study

posttest Evaluation of advertising effectiveness after the campaign

power shopping center A type of shopping center that combines off-price stores with category killers

premium money (push money) Extra compensation to salespeople for pushing a line of goods

premium pricing Pricing the highest-quality or most versatile products higher than other models in the product line

premiums Items offered free or at a minimal cost as a bonus for purchasing a product

press conference A meeting used to announce major news events

prestige pricing Setting prices at an artificially high level to convey prestige or a quality image

prestige sensitive Drawn to products that signify prominence and status

pretest Evaluation of advertisements performed before a campaign begins

price The value paid for a product in a marketing exchange

price competition Emphasizing price as an issue and matching or beating competitors' prices

price conscious Striving to pay low prices

price discrimination Employing price differentials that injure competition by giving one or more buyers a competitive advantage

price elasticity of demand A measure of the sensitivity of demand to changes in price

price leaders A product priced below the usual markup, near cost, or below cost

price lining Setting a limited number of prices for selected groups or lines of merchandise

price skimming Charging the highest possible price that buyers who most desire the product will pay

pricing objectives Goals that describe what a firm wants to achieve through pricing

primary data Data observed and recorded or collected directly from respondents

primary demand Demand for a product category rather than for a specific brand

private distributor brands Brands initiated and owned by resellers

private warehouses Company-operated facilities for storing and shipping products

probability sampling A type of sampling in which every element in the population being studied has a known chance of being selected for study

process materials Materials that are used directly in the production of other products but are not readily identifiable

producer markets Individuals and business organizations that purchase products to make profits by using them to produce other products or using them in their operations

product A good, a service, or an idea

product adoption process The stages buyers go through in accepting a product

product advertising Advertising that promotes the uses, features, and benefits of products

product competitors Firms that compete in the same product class but market products with different features, benefits, and prices

product deletion Eliminating a product from the product mix

product design How a product is conceived, planned, and produced

product development Determining if producing a product is technically feasible and cost effective

product differentiation Creating and designing products so that customers perceive them as different from competing products

product features Specific design characteristics that allow a product to perform certain tasks

product item A specific version of a product that can be designated as a distinct offering among a firm's products

product life cycle The progression of a product through four stages: introduction, growth, maturity, and decline

product line A group of closely related product items viewed as a unit because of marketing, technical, or end-use considerations

product manager The person within an organization responsible for a product, a product line, or several distinct products that make up a group

product mix The total group of products that an organization makes available to customers

product modification Change in one or more characteristics of a product

product placement The strategic location of products or product promotions within entertainment media content to reach the product's target market

product positioning Creating and maintaining a certain concept of a product in customers' minds

product-line pricing Establishing and adjusting prices of multiple products within a product line

professional pricing Fees set by people with great skill or experience in a particular field

promotion Communication to build and maintain relationships by informing and persuading one or more audiences

promotion mix A combination of promotional methods used to promote a specific product

prospecting Developing a database of potential customers

proxemic communication Communicating by varying the physical distance in face-to-face interactions

psychological influences Factors that in part determine people's general behavior, thus influencing their behavior as consumers

psychological pricing Pricing that attempts to influence a customer's perception of price to make a product's price more attractive

public relations Communication efforts used to create and maintain favorable relations between an organization and its stakeholders

public warehouses Storage space and related physical distribution facilities that can be leased by companies

publicity A news-story type of communication about an organization and/or its products transmitted through a mass medium at no charge

pull policy Promoting a product directly to consumers to develop strong consumer demand that pulls products through the marketing channel

pure competition A market structure characterized by an extremely large number of sellers, none strong enough to significantly influence price or supply

push policy Promoting a product only to the next institution down the marketing channel

Q

quality Characteristics of a product that allow it to perform as expected in satisfying customer needs

quality modifications Changes relating to a product's dependability and durability

quantity discounts Deductions from the list price for purchasing in large quantities

quota A limit on the amount of goods an importing country will accept for certain product categories in a specific period of time

quota sampling A nonprobability sampling technique in which researchers divide the population into groups and then arbitrarily choose participants from each group

R

rack jobbers Full-service, specialty-line wholesalers that own and maintain display racks in stores

random discounting Temporary reduction of prices on an unsystematic basis

random factor analysis An analysis attempting to attribute erratic sales variations to random, nonrecurrent events

random sampling A form of probability sampling in which all units in a population have an equal chance of appearing in the sample, and the various events that can occur have an equal or known chance of taking place

raw materials Basic natural materials that become part of a physical product

realized strategy The strategy that actually takes place

rebates Sales promotion techniques in which a consumer receives a specified amount of money for making a single product purchase

receiver The individual, group, or organization that decodes a coded message

reciprocity An arrangement unique to business marketing in which two organizations agree to buy from each other

recognition test A posttest in which respondents are shown the actual ad and are asked if they recognize it

recruiting Developing a list of qualified applicants for sales positions

reference group A group that a person identifies with so strongly that he or she adopts the values, attitudes, and behavior of group members

reference pricing Pricing a product at a moderate level and displaying it next to a more expensive model or brand

regional issues Versions of a magazine that differ across geographic regions

regional shopping center A type of shopping center with the largest department stores, widest product mixes, and deepest product lines of all shopping centers

regression analysis A method of predicting sales based on finding a relationship between past sales and one or more independent variables, such as population or income

reinforcement advertising Advertising that assures users they chose the right brand and tells them how to get the most satisfaction from it

relationship marketing Establishing long-term, mutually satisfying buyer–seller relationships

relationship selling The building of mutually beneficial long-term associations with a customer through regular communications over prolonged periods of time

reliability A condition that exists when a research technique produces almost identical results in repeated trials

reminder advertising Advertising used to remind consumers about an established brand's uses, characteristics, and benefits

research design An overall plan for obtaining the information needed to address a research problem or issue

reseller markets Intermediaries that buy finished goods and resell them for a profit

retail positioning Identifying an unserved or underserved market segment and serving it through a strategy that distinguishes the retailer from others in the minds of consumers in that segment

retailer An organization that purchases products for the purpose of reselling them to ultimate consumers

retailing All transactions in which the buyer intends to consume the product through personal, family, or household use

roles Actions and activities that a person in a particular position is supposed to perform based on expectations of the individual and surrounding persons

routinized response behavior A consumer problem-solving process used when buying frequently purchased, low-cost items that require very little search-and-decision effort

S

sales branches Manufacturer-owned intermediaries that sell products and provide support services to the manufacturer's sales force

sales contest A sales promotion method used to motivate distributors, retailers, and sales personnel

through recognition of outstanding achievements

sales force forecasting survey A survey of a firm's sales force regarding anticipated sales in their territories for a specified period

sales forecast The amount of a product a company expects to sell during a specific period at a specified level of marketing activities

sales offices Manufacturer-owned operations that provide services normally associated with agents

sales promotion An activity and/or material intended to induce resellers or salespeople to sell a product or consumers to buy it

sample A limited number of units chosen to represent the characteristics of a total population

sampling The process of selecting representative units from a total population

scan-back allowance A manufacturer's reward to retailers based on the number of pieces scanned

screening Choosing the most promising ideas for further review

seasonal analysis An analysis of daily, weekly, or monthly sales figures to evaluate the degree to which seasonal factors influence sales

seasonal discount A price reduction given to buyers for purchasing goods or services out of season

secondary data Data compiled both inside and outside the organization for some purpose other than the current investigation

secondary-market pricing Setting one price for the primary target market and a different price for another market

segmentation variables Characteristics of individuals, groups, or organizations used to divide a market into segments

selective demand Demand for a specific brand

selective distortion An individual's changing or twisting of information that is inconsistent with personal feelings or beliefs

selective distribution Using only some available outlets in an area to distribute a product

selective exposure The process by which some inputs are selected to reach awareness and others are not

selective retention Remembering information inputs that support personal feelings and beliefs and forgetting inputs that do not

self-concept A perception or view of oneself

selling agents Intermediaries that market a whole product line or a manufacturer's entire output

service An intangible result of the application of human and mechanical efforts to people or objects

shopping mall intercept interview A research method that involves interviewing a percentage of individuals passing by "intercept" points in a mall

shopping products Items for which buyers are willing to expend considerable effort in planning and making purchases

single-source data Information provided by a single marketing research firm

situational influences Influences that result from circumstances, time, and location that affect the consumer buying decision process

social class An open group of individuals with similar social rank

social influences The forces other people exert on one's buying behavior

social network Web-based meeting place for friends, family, coworkers, and peers that allow users to create a profile and connect with other users for purposes that range from getting acquainted, to keeping in touch, to building a work-related network

social responsibility An organization's obligation to maximize its positive impact and minimize its negative impact on society

sociocultural forces The influences in a society and its culture(s) that change people's attitudes, beliefs, norms, customs, and lifestyles

sole sourcing An organization's decision to use only one supplier

source A person, group, or organization with a meaning it tries to share with a receiver or an audience

Southern Common Market (Mercosur) An alliance that promotes the free circulation of goods, services, and production factors, and has a common external tariff and commercial policy among member nations in South America

special-event pricing Advertised sales or price cutting linked to a holiday, a season, or an event

specialty products Items with unique characteristics that buyers are willing to expend considerable effort to obtain

specialty-line wholesalers Full-service wholesalers that carry only a single product line or a few items within a product line

stakeholders Constituents who have a "stake," or claim, in some aspect of a company's products, operations, markets, industry, and outcomes

statistical interpretation Analysis of what is typical and what deviates from the average

storyboard A blueprint that combines copy and visual material to show the sequence of major scenes in a commercial

straight commission compensation plan Paying salespeople according to the amount of their sales in a given time period

straight rebuy purchase A routine purchase of the same products under approximately the same terms of sale by a business buyer

straight salary compensation plan Paying salespeople a specific amount per time period, regardless of selling effort

strategic alliance A partnership that is formed to create a competitive advantage on a worldwide basis

strategic business unit (SBU) A division, product line, or other profit center within the parent company

strategic channel alliance An agreement whereby the products of one organization are distributed through the marketing channels of another

strategic philanthropy The synergistic use of organizational core competencies and resources to address key stakeholders' interests and achieve both organizational and social benefits

strategic planning The process of establishing an organizational mission and formulating goals, corporate strategy, marketing objectives, marketing strategy, and a marketing plan

strategic windows Temporary periods of optimal fit between the key requirements of a market and the particular capabilities of a company competing in that market

stratified sampling A type of probability sampling in which the population is divided into groups with a common attribute and a random sample is chosen within each group

styling The physical appearance of a product

subculture A group of individuals whose characteristics, values, and behavioral patterns are similar within the group and different from those of people in the surrounding culture

supermarkets Large, self-service stores that carry a complete line of food products, along with some nonfood products

superregional shopping center A type of shopping center with the widest and deepest product mixes that attracts customers from many miles away

superstores Giant retail outlets that carry food and nonfood products found in supermarkets, as well as most routinely purchased consumer products

supply chain All the activities associated with the flow and transformation of products from raw materials through to the end customer

supply management In its broadest form, refers to the processes that enable the progress of value from raw material to final customer and back to redesign and final disposition

supply-chain management A set of approaches used to integrate the functions of operations management, logistics management, supply management, and marketing channel management so products are produced and distributed in the right quantities, to the right locations, and at the right time

support personnel Sales staff members who facilitate selling but usually are not involved solely with making sales

sustainable competitive advantage An advantage that the competition cannot copy

SWOT analysis Assessment of an organization's strengths, weaknesses, opportunities, and threats

T

tactile communication
Communicating through touching

target audience The group of people at whom advertisements are aimed

target market A specific group of customers on whom an organization focuses its marketing efforts

team selling The use of a team of experts from all functional areas of a firm, led by a salesperson, to conduct the personal selling process

technical salespeople Support salespeople who give technical assistance to a firm's current customers

technology The application of knowledge and tools to solve problems and perform tasks more efficiently

telemarketing The performance of marketing-related activities by telephone

telephone depth interview An interview that combines the traditional focus group's ability to probe with the confidentiality provided by telephone surveys

telephone survey A research method in which respondents' answers to a questionnaire are recorded by an interviewer on the phone

television home shopping A form of selling in which products are presented to television viewers, who can buy them by calling a toll-free number and paying with a credit card

test marketing Introducing a product on a limited basis to measure the extent to which potential customers will actually buy it

time series analysis A forecasting method that uses historical sales data to discover patterns in the firm's sales over time and generally involves trend, cycle, seasonal, and random factor analyses

total budget competitors Firms that compete for the limited financial resources of the same customers

total cost The sum of average fixed and average variable costs times the quantity produced

total quality management (TQM) A philosophy that uniform commitment to quality in all areas of the organization will promote a culture that meets customers' perceptions of quality

trade (functional) discount A reduction off the list price a producer gives to an intermediary for performing certain functions

trademark A legal designation of exclusive use of a brand

trade name Full legal name of an organization

trade sales promotion methods
Methods intended to persuade wholesalers and retailers to carry a producer's products and market them aggressively

trade salespeople Salespeople involved mainly in helping a producer's customers promote a product

trading company A company that links buyers and sellers in different countries

traditional specialty retailers Stores that carry a narrow product mix with deep product lines

transfer pricing Prices charged in sales between an organization's units

transportation The movement of products from where they are made to intermediaries and end users

trend analysis An analysis that focuses on aggregate sales data over a period of many years to determine general trends in annual sales

truck wholesalers Limited-service wholesalers that transport products directly to customers for inspection and selection

tying agreement An agreement in which a supplier furnishes a product to a channel member with the stipulation that the channel member must purchase other products as well

U

unaided recall test A posttest in which respondents are asked to identify advertisements they have seen recently but are not given any recall clues

undifferentiated targeting strategy
A strategy in which an organization designs a single marketing mix and directs it at the entire market for a particular product

uniform geographic pricing
Charging all customers the same price, regardless of geographic location

unsought products Products purchased to solve a sudden problem, products of which customers are unaware, and products that people do not necessarily think about buying

V

validity A condition that exists when a research method measures what it is supposed to measure

value A customer's subjective assessment of benefits relative to costs in determining the worth of a product

value analysis An evaluation of each component of a potential purchase

value conscious Concerned about price and quality of a product

variable costs Costs that vary directly with changes in the number of units produced or sold

vendor analysis A formal, systematic evaluation of current and potential vendors

venture team A cross-functional group that creates entirely new products that may be aimed at new markets

vertical channel integration
Combining two or more stages of the marketing channel under one management

vertical marketing system (VMS) A marketing channel managed by a single channel member to achieve efficient, low-cost distribution aimed at satisfying target market customers

viral marketing A strategy to get consumers to share a marketer's message, often through e-mail or online videos, in a way that spreads dramatically and quickly

W

warehouse clubs Large-scale, members-only establishments that combine features of cash-and-carry wholesaling with discount retailing

warehouse showrooms Retail facilities in large, low-cost buildings with large on-premises inventories and minimal services

warehousing The design and operation of facilities for storing and moving goods

wholesaler An individual or organization that sells products that are bought for resale, for making other products, or for general business operations

wholesaling Transactions in which products are bought for resale, for making other products, or for general business operations

width of product mix The number of product lines a company offers

wiki Type of software that creates an interface that enables users to add or edit the content of some types of websites

willingness to spend An inclination to buy because of expected satisfaction from a product, influenced by the ability to buy and numerous psychological and social forces

word-of-mouth communication Personal informal exchanges of communication that customers share with one another about products, brands, and companies

World Trade Organization (WTO) An entity that promotes free trade among member nations by eliminating trade barriers and educating individuals, companies, and governments about trade rules around the world

Z

zone pricing Pricing based on transportation costs within major geographic zones

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CHAPTER 10

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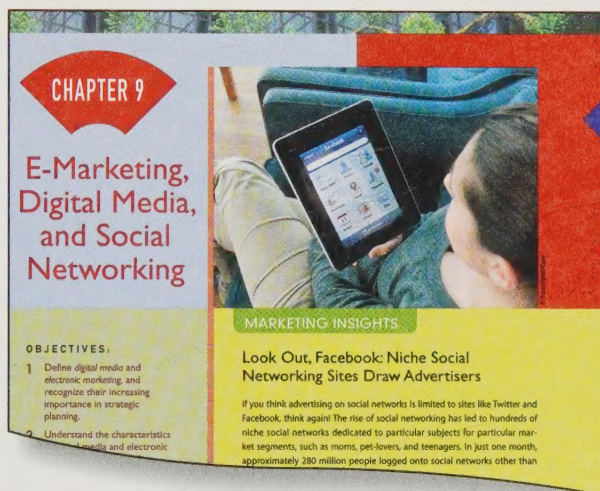
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Pride-Ferrell's *Foundations of Marketing* Helping Navigate the Marketing Landscape

Today's students are faced with environmental challenges, economic fluctuations, advances in technology, and increased global competition that have made marketing a more complicated landscape to maneuver than ever before. They are expected to have a world of information at their fingertips, and this edition of *Pride-Ferrell's Foundations of Marketing* has focused on providing the most up-to-date and thorough coverage of marketing in an accessible and intriguing way.



NEW! Chapter 9, E-Marketing, Digital Media, and Social Networking

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To reflect how marketing is changing and adapting, *Emerging Trends in Marketing* boxed features illustrate organizations implementing new technology, succeeding amidst new competitive forces, and responding to the global economy.

Emerging Trends in Marketing

Are Hybrid Cars a Question Mark?

With increasing energy costs and concerns over climate change, hybrid cars were thought to be a viable alternative to traditional vehicles. The Toyota Prius has sold more than 1 million hybrids and now faces competition from vehicles such as the Ford Focus Hybrid and the Honda Civic Hybrid. On the other hand, traditional gasoline models such as the Hyundai Elantra, with gas mileage of 40 miles per gallon or more, have become more economical competitors. The market share of hybrids dropped from 3.6 percent of automobile sales to 1.6 percent within a two-year period. The biggest deterrent for many consumers is the cost of hybrids. Hybrid vehicles on average cost \$6,000 more than other cars.

However, the hybrid should not be discounted just yet. Car companies such as Hyundai are investing in new technology to lower the costs of hybrids. Additionally, analysts predict that hybrids will continue to grow so that automobile manufacturers will be able to meet the government's mandate for lower emission standards. The hybrid still has the chance to move from a question mark to a star.⁹

Green Marketing

IKEA's Sustainable Geothermal Energy Initiative

Although we rarely equate large-scale retailers with sustainability, IKEA takes the topic to heart. The company has a large carbon footprint, thanks in part to global shipping. To counteract this, IKEA leads a number of sustainable initiatives. One such initiative is running stores on geothermal energy. All of its Swedish stores are going geothermal, and IKEA has already transformed other European locations. Its first U.S. location is set for Denver, Colorado.

Geothermal energy uses heat pumps to bring the fairly consistent moderate temperature found roughly 500 feet below ground to the surface via a liquid loop. The heat pump then heats or cools the air within the store. According to the Environmental Protection Agency, geothermal heat pumps eliminate 72 percent of energy used and emissions created by conventional systems.

In Denver, IKEA has partnered with the National Renewable Energy Laboratory, which will monitor the project. If successful, the organizations intend to publicize their plans so that other large-scale retailers can follow suit.⁸

NEW! Green Marketing

This edition's *Green Marketing* feature focuses on green initiatives that help organizations achieve both environmental and economic sustainability.

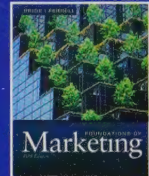
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